FINANCIAL TIMES

World Business Newspaper http://www.FT.com

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WORLD NEWS

Nato prepared for Yugoslavia strikes within weeks

Nato signalled it would carry out air strikes in Yugoslavia within weeks unless Slobodan Milosevic, the country's president, complied with Wednesday's United Nations resolution demanding a ceasefire and a negotiated solution to the crisis in Kosovo. Page 18; Bosnia hopes, Page 2

France aims to boost EU role
France wants to strengthen the European Union's political role in stabilising world markets and overhauling the International Monetary Fund and World Bank. Page 18; Ministers divided over voice for euro, Page 2

Britain and Iran to resume ties
Britain and Iran struck a deal to exchange ambassadors after Iran said it would not threaten the life of author Salman Rushdie, under a *fatwa* – or death edict – since 1989. Page 10

Call for Turkish minister to resign
A Turkish left-wing opposition party that props up prime minister Mesut Yilmaz's minority coalition threatened to topple the government if a cabinet minister linked to a security scandal did not quit. Page 3

Spain set to approve draft budget
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Norway's PM returns to work
The Norwegian prime minister, Kjell Magne Bondevik, ran into opposition charges that his government was "weak and unstable" when he returned to work after three-and-a-half weeks on sick leave for depression. Page 3

World Bank sounds alarm
The World Bank warned its shareholders that it might need a politically controversial capital increase if it is to continue providing emergency help to countries facing financial crises. Page 10

Impeachment timetable outlined
US congressmen outlined a rapid timetable to launch an impeachment inquiry into President Bill Clinton's conduct in the Monica Lewinsky affair, after the release of further unpublished evidence from the Starr investigation next week. Page 4

Eight-year low for poverty in US
US household incomes rose in 1997 for the third straight year, taking poverty levels back to their lowest since 1989, the US Census Bureau reported. Page 4

Jiang invitation to Taiwan official
China announced it had invited a senior Taiwanese representative for an unprecedented meeting with Jiang Zemin, president, on mainland Chinese soil. Page 6

Malaysian PM continues reform
Mahathir Mohamad, Malaysia's prime minister, moved further against internal dissent while pushing ahead with his overhaul of the economic system. Page 6

BUSINESS NEWS

Star alliance member SAS in deal with Singapore Airlines

Scandinavian Airlines System, a leading member of the six-carrier Star alliance, is to sign a code-sharing agreement with Singapore Airlines in the latest tie-up in the consolidating airline industry. Page 19

Diageo, LVMH and Gucci shares were hit as all three companies reported lower profits caused by turmoil in Asian markets. Page 19; Lex, Page 18; Details, Page 24; Gucci and LVMH results, Page 22

KSB of Germany, Europe's second-biggest pump maker, may spend up to DM800m ($474m) on acquisitions, mainly to boost its presence in the US. Page 23

Deutsche Bank, Germany's largest, said it had bought a 4.5 per cent stake in Milan commercial bank Banca Commerciale Italiana for L700bn ($420m). Page 22

Coca-Cola, US soft drinks group, is expected to warn that third-quarter volume and profits will be weaker than expected. Page 23

Grupo Santander of Spain cut 300 investment banking jobs in Asia, New York and London. Page 22

Stora of Sweden and Finnish forestry products group Enso yesterday faced a further delay to their merger which would create the world's largest paper manufacturer. Page 22

NTT DoCoMo, Japanese mobile telecommunications group, confirmed that the price range of its share issue would almost certainly make it the world's largest initial public offering. Page 21

Yukos, one of Russia's largest oil companies, hopes to restructure the terms of the deal under which it has lost about 30 per cent of its shares to foreign banks. Page 22

DSM, Dutch chemicals and materials producer, is to buy back 7 per cent of its equity at a cost of Fl 392.4m ($208m) at current prices. Page 22

Publicis shares rose 6.7 per cent to FFr950 after the French advertising company announced a 54 per cent rise in first-half net profits to FFr229m ($40.5m). Page 22

Bull, French electronics maker, said it would not match last year's net profit of FFr603m ($107m) because of a FFr1bn staff redeployment and training programme. Page 22

Banco Bilbao Vizcaya, Spanish banking group, acquired 100 per cent of Portuguese stock brokerage and fund manager Midas Investimentos. Page 22

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UBS takes $683m charge

Write off on LTCM investment puts pressure on banks to disclose hedge fund exposure

By Our International and Financial Staff

UBS, Europe's largest bank, said yesterday it had written off SFr950m ($683m) on its investment in Long-Term Capital Management, the US hedge fund rescued by 15 international banks, including the Swiss bank itself.

UBS's charge, which will lead to an after-tax loss of up to SFr1bn in the third quarter, relates to its equity investment in Long-Term Capital rather than its credit exposure.

But its announcement is likely to increase pressure on banks from national regulators and stock markets to disclose their potential exposure to Long-Term Capital and other hedge funds. Under the rescue agreement, 11 banks – Goldman Sachs, Merrill Lynch, Morgan Stanley Dean Witter, Travelers, UBS, Credit Suisse First Boston, Barclays, Deutsche Morgan Grenfell, Chase Manhattan, BT Alex Brown and J.P. Morgan – each agreed to put up $300m, while Société Générale and Lehman Brothers contributed $125m and Paribas and Crédit Agricole $100m.

People involved in the talks at the Federal Reserve Bank of New York said that while the exposure of some of these banks was sizeable - perhaps as much as $800m – some had relatively small exposure, in particular some of the non-US banks.

They participated to be "neighbourly", according to one bank, who said US banks were far more concerned about the pressure from the Fed. "The Fed has a way of putting very soft pressure on you," one bank said. Senior bankers in New York said they were reviewing their strategies for extending credit to hedge funds, admitting that there had been lapses in scrutiny.

One banker said investment banks would have to be "more disciplined" in their dealings with hedge funds, which have become valuable clients.

Many hedge funds are secretive and do not disclose their exposure to counterparties. However, many banks said that their exposure to hedge funds, including Long-Term Capital, was partly, largely or fully covered by collateral, leaving a confused picture of the extent of their exposure. Some were said to have stopped extending credit to some hedge funds.

Pierre de Weck, UBS's chief credit officer, said there was nothing unusual about its decision not to disclose the size of its exposure until now. However, he stressed that there were no more "black holes" in UBS's portfolio which could equate to the damage caused by Long-Term Capital.

The investment was made by the old Union Bank of Switzerland, before its merger with Swiss Bank Corporation. "One month ago [Long-Term Capital] was looking very different", Mr de Weck said.

By Tracy Corrigan in New York, Christopher Brown-Humes and Clay Harris in London, and William Hall in Zurich

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Bailed-out hedge fund to seek new investors

By William Lewis and Tracy Corrigan in New York

Long-Term Capital Management, the hedge fund that was bailed out early yesterday by a consortium of mainly Wall Street firms for $3.5bn, is already planning to raise several billion dollars from new investors.

According to people close to the crisis-hit hedge fund, after a period of "stabilisation" it will seek to raise more than $1.2bn and possibly up to $3bn.

If successful, the investors would buy out several of the 15 financial groups that are taking control of Long-Term Capital.

Insiders insist that the positions the fund holds – mainly in sovereign bonds of G7 governments – will ultimately prove to be "exceptionally profitable" as market turbulence subsides. Long-Term Capital declined to comment.

Under the terms of the settlement, agreed in principle with the consortium, Long-Term Capital will be able to request to buy the investors out as long as its net asset value is the same or more than at the time of the $3.5bn equity infusion.

The bail-out money is to be used to help the hedge fund avoid selling assets and being unable to meet margin calls. It is expected to remain highly leveraged, with its total market position described as being "in the tens of billions of dollars range".

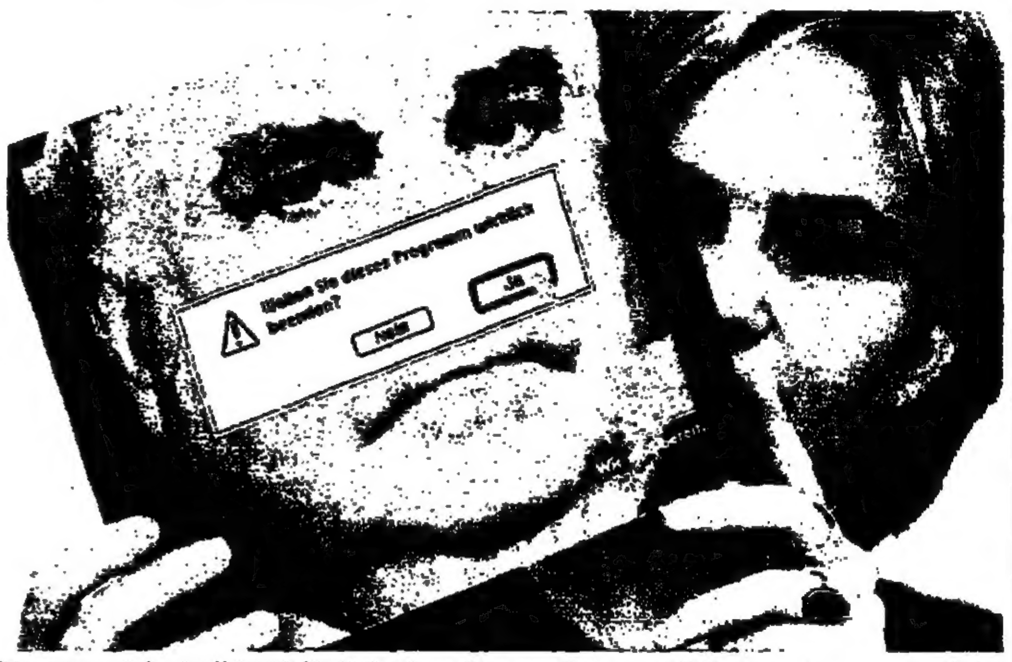
Once the agreement is signed, the banks will own 90 per cent of the fund's equity for an initial three years, although most say they hope to be bought out before then. Furthermore, the banks have an option to get 50 per cent of the management company for a nominal $1. "The objective is to return capital to participants as soon as possible," said one participant.

The terms provide the consortium with full authority over the investment strategy, capitalisation structure, credit and market risk management, compensation and "all other significant decisions". No further unsecured indebtedness will be permitted.

Long-Term Capital does not intend to alter its arbitrage trading strategy – buying one security while selling short (selling in the anticipation of a price decline) a related security and hoping to profit as the spread between the two converges.

Kohl urges voters to shun 'grand coalition'

By Ralph Atkins and Tobias Buck in Bonn



SPD mouse mat showing Helmut Kohl with the slogan: 'Do you really want to quit this program?' Reuters

Chancellor Helmut Kohl last night appealed to German voters not to support a "grand coalition" between his Christian Democratic Union and opposition Social Democrats.

Mr Kohl, fighting for re-election after 16 years in office, said: "A grand coalition would be bad for Bonn because absolutely nothing would come out of it."

As the election campaign approaches a climax in next Sunday's general election, Peter Hintze, CDU general secretary, predicted a "very close" result. Mr Hintze sought to head-off speculation that Mr Kohl accepts a "grand coalition" as a likely outcome.

"He wants to continue the current [centre-right] coalition," said Mr Hintze. "He regards a grand coalition as damaging – because all the Social Democrat Party (SPD) contradictions would interfere with the work of government and hold everything up."

Mr Kohl has ruled out heading a grand coalition himself. He was speaking last night in Munich and holds his final rally tonight in Mainz.

The SPD claimed to be within "a few metres" of its goal – to be the largest party in parliament and have Gerhard Schröder, prime minister of Lower Saxony state, as Germany's chancellor.

Although the SPD leads the CDU by only a few percentage points in opinion polls, Franz Müntefering, general secretary, said there was a "clear preference" for Mr Schröder over Mr Kohl.

The SPD, which has campaigned on the themes of "innovation and social justice", had closed ranks and not made any "decisive mistakes", Mr Müntefering said. Mr Schröder holds his closing rally in Berlin tonight.

Sunday's outcome will be shaped by decisions taken by the large numbers of undecided voters – and also the performance of the smaller parties.

If the Party of Democratic Socialism, the successor to East Germany's communist party, again wins seats in parliament it could prevent both Mr Kohl's current coalition and a SPD/Green party alliance from winning a majority of seats. The SPD has ruled out leading a coalition supported by the PDS.

The SPD has long argued that a "grand coalition" could thus be forced by Sunday's result. Earlier this week Mr Kohl also acknowledged that a "grand coalition" was possible in principle.

Yesterday the chancellor's comments triggered criticism from the small Free Democratic Party, junior member of Mr Kohl's coalition, which fears the CDU was playing into the SPD's hands and undermining its own campaign. The FDP is fighting to jump the 5 per cent hurdle set to exclude extremists from parliament.

Germany's dead heat, Page 16

Court freezes $113m in two Russian banks

By John Thornhill in Moscow and Clay Harris in London

Lehman Brothers, the US investment bank, has won a UK court order freezing $113m held by two Russian banks.

Lehman's move, which stepped up the war of wills between foreign creditors and the Russian government, came as senior Russian officials warned they might default on their external debt without further international support. They lashed out at "greedy" foreign banks which were demanding too much from restructuring of the government debt (GKO) market.

One western banker, criticising the Russian government's defence of a 90-day moratorium, which has prevented creditors from winding up insolvent banks, said: "Everything that has happened today has significantly raised the temperature. Lehman's action is a test case and could just be the first of many.

"So long as the Russian banks continue to stonewall their foreign creditors with the collusion of the government then you can expect cases like this to continue to be introduced."

Lehman's legal action was not directly related to the squabble over Russia's effective default on its domestic debt. Instead, it was acting on behalf of clients whose forward foreign exchange contracts were now in doubt because of Russian counterparties' unwillingness or inability to fulfil their side of the bargain. Lehman was granted injunctions in the High Court in London, freezing $87m at Inkombank and $26m at Oneximbank.

Victor Gerashchenko, head of the central bank, said the government would continue to talk to Russian and foreign GKO holders about restructuring the frozen $40bn market.

The Russian authorities yesterday postponed, by a week, the deadline for accepting a previous restructuring deal which fell due today.

But Mr Gerashchenko warned that, if "greedy" foreign banks pushed too hard, they risked losing everything.

Alexander Shokhin, first deputy prime minister, hinted that the government might like to renegotiate its recent Paris Club deal under which it restructured billions of dollars of Soviet-era sovereign debt.

Mikhail Kasayanov, Russian deputy finance minister, in Paris yesterday to meet members of the club of creditor nations, said his country had delayed $600m in interest payments on debt inherited from the former Soviet Union to Germany and other governments.

Separately, international banks said they had been asked to join the Moscow Club, a group of GKO creditors formed by Mr Shokhin.

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WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	8089.27	(-65.14)
NASDAQ Composite	1747.90	(-12.37)
Europe and Far East		
CAC40	3381.13	(-42.85)
DAX	4646.25	(-53.14)
FTSE 100	5187.8	(-47.1)
Nikkei	14,205.78	(+415.97)
US LUNCHTIME RATES		
Federal Funds	5.4375%	
3-mth Treas Bills: Yld	4.60%	
Long Bond	105¼	
Yield	5.160%	
OTHER RATES		
UK: 3-mo Interbank	7¼%	(same)
UK: 10 yr Gilt	116.3281	(same)
France: 10 yr OAT	108.78	(108.79)
Germany: 10 yr Bond	109.37	(same)
Japan: 10 yr JGB	115.10	(115.13)
NORTH SEA OIL (Argus)		
Brent Dated	$14.885	(14.895)

GOLD		
New York: Comex		
Sep	$293.8	(289.8)
London:		
	$292.85	(289.45)
EXCHANGE RATES		
Dollar		
New York: Lunchtime		
£	1.6970	
DM	1.6720	
FFr	5.6090	
SFr	1.38425	
Y	134.955	
London:		
£	1.6920	(1.6830)
DM	1.5798	(1.5873)
FFr	5.6302	(5.6581)
SFr	1.3918	(1.3984)
Y	135.785	(138.355)
Tokyo Close		Y [illegible]
Sterling		
DM	2.8404	([illegible])

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WORLD NEWS

EUROPE

West hopeful in face of Bosnia result

Nikola Poplasen: leader of the ultra-nationalist Radical party

By Guy Dinmore in Banja Luka

Western officials in Bosnia are increasingly confident they can isolate the new ultra-nationalist president of the Serb-controlled territory and push forward the peace process, despite what they consider a disastrous election result, expected to be announced today.

The Organisation for Security and Co-operation in Europe (OSCE), which ran the September 12-13 polls, said results, delayed by technical problems and power cuts, would be announced today.

Diplomats have for several days already been saying that Biljana Plavsic, the western-backed Bosnian Serb president, has lost to Nikola Poplasen, leader of the ultra-nationalist Radical party. But it appears Mr Poplasen's hardline alliance will not have enough seats in the Bosnian Serb assembly to form a government against the combined votes of Mrs Plavsic's moderate coalition and a bloc of Moslem deputies.

Milorad Dodik, the current western-backed prime minister, told the FT that under the constitution, Mr Poplasen would have two attempts to form a government and, if he failed, fresh elections would be held. The process could take some months.

"I expect a parliamentary crisis here and hope for more support from the US," Mr Dodik said.

Diplomats were also encouraged that their moderate Socialist candidate, Zivko Radisic, was expected to defeat Momcilo Krajisnik, the hardline Serb representative on Bosnia's joint three-man presidency.

Robert Gelbard, the senior US envoy to the Balkans, and Carlos Westendorp, the international community's High Representative to Bosnia, have had a series of crisis meetings with Mrs Plavsic and Mr Dodik. Mr Gelbard said $100m of US aid pledged to the Bosnian Serbs this year depended on their future policies.

Mr Poplasen's party's ultimate goal is the division of Bosnia and the creation of a "Greater Serbia". Moslem and Croat refugees, driven by Serbs into what is now the Moslem-Croat federation, the other half of Bosnia, would not be encouraged to return, he warns. But Mr Poplasen has begun to moderate his language and said he was ready to co-operate with the international community.

Diplomats pointed out he would not have control of the media or most of the interior ministry loyal to Mr Dodik's government. Should he blatantly obstruct the peace process, Mr Westendorp could even remove him.

There is growing concern, however, about the impact on Bosnia of the conflict in Serbia's Kosovo province.

Should Nato carry out its threat and intervene against Serbian government forces, probably by flying over Bosnian airspace, there is the danger of an anti-western backlash among Serbs. A Nato bombing campaign in Kosovo would probably destroy any chances of Mr Dodik being re-elected as prime minister.

Ministers divided over voice for euro

By Quentin Peel in Brussels

The vexed question of who will speak for the euro-zone in international institutions is set to divide European Union finance ministers this weekend, pitting the big member states against the small, and leaving the European Commission caught in the middle.

Even as the ministers wrestle with the sweeping issue of what Europe should do to steady the world economy, they seem set to disagree both on how to speak up for the euro, and whether they need to do so at all.

The 15 EU finance ministers and their central bank governors are due to hold their six-monthly informal meeting in Vienna today and tomorrow, to consider the state of the world economy, the financial crises in Asia and Russia, and the role of the International Monetary Fund. Michel Camdessus, IMF managing director, will attend their debate tomorrow.

In spite of the gathering gloom, the most controversial item on the agenda is the question of how to co-ordinate a common line for the future members of the euro-zone, and who will represent it in such institutions as the IMF and the Group of Seven industrialised countries.

Germany, for a start, is not persuaded that the euro needs any spokesman at all, beyond the president of the European Central Bank. France, on the other hand, believes that there are important issues of economic policy, as opposed to purely monetary policy, on which the 11 finance ministers of the euro-zone should seek to speak as one. They would include areas such as budget policy, labour market issues and structural policies.

Classic battle lines have been drawn between the bigger and smaller members of the EU. The latter believe that the euro-zone should be represented by whoever is in the chair of the euro-11 committee, the informal body which is supposed to co-ordinate policy within the full EU finance ministers' council. But that would mean adding an additional delegation to an organisation such as the G7.

France, Germany, Italy and Britain, the four EU members of the G7, are all uncomfortable with any solution which might dilute their national position.

They also stress the likely resistance of the US, Canada and Japan at having yet more European representatives in an already unwieldy club. The French suggestion is that the other three should take it in turns to present any agreed euro-position.

The UK government, as the only non-euro member of the Europeans in the G7, is particularly sensitive to any move which might undermine its full membership, or any hint that the group should become a G3, with just the US, Japan and the euro-zone represented.

As for the European Commission, the EU's executive body, it is holding its hand close.

An earlier attempt to put its own president, Jacques Santer, forward as the obvious euro-representative, was snubbed by the big member states.

But if there is a stalemate between the finance ministers, that could emerge again as a possible compromise.

The one person who seems to be sure of his own position is Wim Duisenberg, the president of the ECB, who already seems certain to be included in all G7 debates at the top table, as the unquestioned senior European central banker.

Russia to reintroduce vodka monopoly

By Anthony Robinson in Moscow

Russia's new government yesterday announced "urgent measures" to reintroduce a state monopoly in the production and sale of vodka and other alcoholic drinks, one of the main sources of tax revenue for Tsarist and Soviet governments alike.

The monopoly was abolished, with other restrictions on trade, as part of market reformers' liberalisation policies designed to open up the economy to competition.

That opened the floodgates to a wave of cheap and luxury imports which sidelined Russian vodka and put a severe dent in the state budget. It also opened the way for special deals favouring institutions with political connections such as the National Sports Fund.

The Sports Fund was awarded lucrative exemptions to the excise duties which continued to be levied on imported alcohol and cigarettes, but were widely evaded by smugglers as the industry became increasingly criminalised.

Alexander Shokhin, deputy prime minister in charge of economic affairs, linked restoration of the monopoly to the government's plan to pay all wage arrears in the public sector, including the army and police. He estimated it would raise Rbs15bn roubles ($790m), roughly half the amount earmarked for payment of wage arrears.

Gennady Kulik, also a deputy prime minister, added that official figures showed Russians drank 2.1bn litres of vodka last year but only 860m were officially produced or imported. This is less than a quarter of the domestic industry's production capacity of 3.6bn litres from 800 distilleries licensed to produce alcoholic drinks over 28 per cent proof.

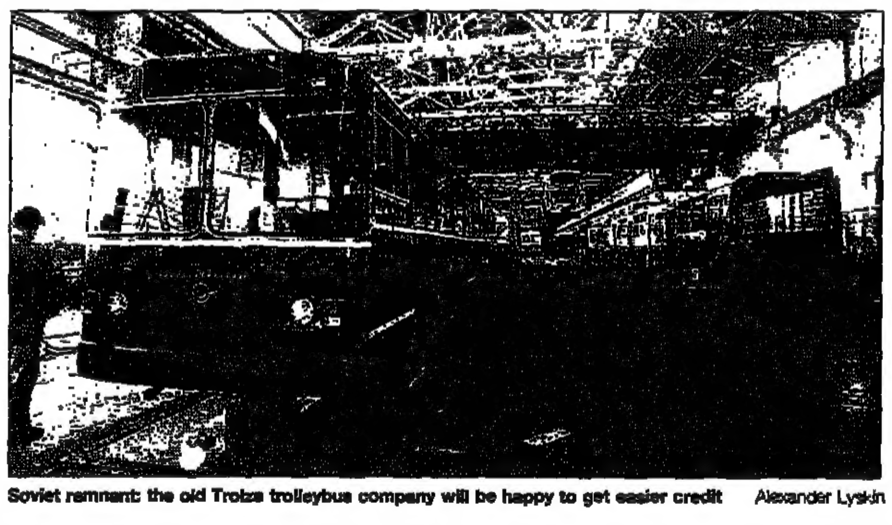
In future, producers would come under tighter supervision to ensure quality and check under-reporting of output, he said. "This sector has become so criminalised it is damaging the health of people and the economy. Further inaction is intolerable."

Over 1.4bn litres of vodka consumed was unaccounted for by the official output and import figures, indicating large-scale smuggling, widespread home-brew vodka production and undeclared output by registered producers. "As a result, the market is overflowing with all sorts of rubbish, people are dying because they drink too much, while the undeclared output cost the budget Rbs30bn," he added.

Tampering with vodka supplies is tricky in Russia, as former president Mikhail Gorbachev found when he tried to restrict vodka drinking, alienating millions of Russians.

New regime raises hopes and fears along the Volga

Russia's industrial and farming heartland has survived Moscow's banking crisis so far, writes **Anthony Robinson**



Soviet remnant: the old Trolza trolleybus company will be happy to get easier credit Alexander Lyskin

Ball bearings made in the sprawling SPZ plant in the Saratov region went into the tanks, guns and industrial applications that help defeat Germany in the second world war.

Today SPZ's bearings, honed to the most demanding of international standards, are exported to 40 countries around the world as part of a different battle – for the survival of the Russian economy.

But SPZ, and other companies like it that have modernised and embraced the disciplines of the market, are just one side of a "dual economy": on the other are the tired and inefficient remnants of the Soviet era.

For the managers of these near-bankrupt military plants or even old-fashioned civilian factories such as Saratov's Trolza trolleybus, the prospect of easier credit allowed by the new regime in Moscow brings hope of a bail-out. At the same time, the dynamic private sector, which operates in a mainly cash environment, is afraid the central bank's policy of printing roubles will just stoke up inflation and make life even more difficult.

"This economy needs to succour the new enterprises and the wealth creators, not channel funds into the old," says Alexander Suslov, the president of Ekonombank, the largest bank in the Saratov region.

Here, in Russia's industrial and farming heartland along the Volga river the problems are very different from those in Moscow. Few companies or private individuals have bank accounts, most of the local enterprises survive on the basis of barter and non-payment of taxes, and the dollarisation of the economy is much less evident than in the capital with its ubiquitous foreign exchange booths.

So far it has survived the financial melt-down of the Moscow-based banking system partly because the big banks owned by Russia's seven "oligarchs" kept provincial upstarts out of the lucrative government bond markets. Only 6 per cent of Ekonombank's assets were invested in these now frozen instruments.

But Ekonombank also refuses to bail out chronic loss-makers and lends only to companies with a proven credit track record.

"Long lines formed outside the local branches of the Moscow-based banks when people saw on the television what was happening in Moscow. Nervous depositors also withdrew money from us. But when they saw that we were still functioning and able to pay we started to take in new deposits from people who had been able to withdraw funds from the other banks," explained Mr Suslov in his office, with a portrait of Pyotr Stolypin, the region's tsarist-era reformist governor, on the wall.

The majority of Saratov's industrial and farming companies are Soviet remnants. Alongside them, however, the much smaller but dynamic private sector operates mainly on a cash basis and uses the banking system, if at all, mainly to carry out commercial transactions or borrow relatively small amounts of short-term working capital.

This part of the dual economy also encompasses several foreign companies including British American Tobacco, Pepsico and Bosch – which has reconstructed what used to be the only spark-plug producer in the former Soviet Union. The US agricultural machinery company Case has started to assemble harvesters at Saratov's Yak Aircraft plant where the output was 80 per cent military a decade ago.

Anatoly Chistyakov is general director and major shareholder of SPZ's plant. A decade ago there were 35 bearing factories in the Soviet Union. Today SPZ is one of four survivors in Russia. "How did we survive? We brought in 200 new young managers and set up new marketing and IT departments. We also renovated our product range and raised quality to international standards. Around 60 per cent of our bearings are new types which we sell for example to Fiat and to Daewoo's plants in Uzbekistan and Rostov on Don," Mr Chistyakov explains.

"Of course, we have to do barter deals as well. But bearings are as good as money, everyone needs them so we can be choosy. Our main problems are taxes, bureaucracy and dealing with the monopolies. If in Soviet times there were 200 laws and regulations, now there are 600 and the tax people don't know the difference between turnover and profit. If companies paid all their taxes 93 per cent of their income would disappear. You cannot build up a company and invest in those conditions." Apart from being gouged by local and national governments Mr Chistyakov most resents the power of the "natural monopolies" which reformers in the last government such as Boris Nemtsov tried to break up.

"Here in the Volga region we should have cheap energy from the hydro barrages across the river and the big nuclear power plant 180km from here. But do we? Oh, no, we pay the same as people in Kamchatka [in the Russian far east] and because electricity is a monopoly, if you don't pay they cut you off."

In this way profitable companies such as SPZ end up subsidising the unreconstructed Soviet loss-makers which are often supplied with utilities whether they pay or not and are now waiting for a new infusion of roubles to bail them out.

Kohl trims expectations of economic growth

By Peter Norman in Bonn

With just three days before Germany's general election, Helmut Kohl, the chancellor, yesterday trimmed government expectations of real economic growth this year to around 2.7 per cent from 2.9 per cent previously.

Growth next year would "land in the region of 2.5 per cent," the chancellor said in a pre-election interview with the ARD public television network.

A month ago, Günter Rexrodt, economics minister, forecast that 1999 growth would be "a good 3 per cent".

However, Mr Kohl said he was confident that unemployment would fall below the psychologically important 4m level this month and next. Although this year's average unemployment would be more than 4m, "the turnaround is there", he said.

It appears that Mr Kohl toned down his expectations of growth in the light of a recent International Monetary Fund report, which predicted German growth of 2.6 per cent this year and 2.5 per cent in a worst-case scenario for next year.

The IMF took account of the crises in Asia, Russia and the financial markets, which were not fully apparent at the time of the economics ministry forecasts last month.

Meanwhile, provisional inflation figures based on returns from four large west German federal states pointed to effective price stability in western Germany. Lower prices for raw materials, petrol and heating oil helped limit the rise in the west German cost of living to 0.7 per cent this month compared with September last year.

The region's year-on-year inflation rate was unchanged from 0.7 per cent in August.

The federal statistics office in Wiesbaden reported that living costs fell 0.3 per cent between August and September, largely reflecting lower prices for holidays.

Bomb fears for US consulate

German police said yesterday they had received information about a planned bomb attack on the US consulate in Hamburg and it was "probable" there were links to the August bombings of two US embassies in Africa, **Reuters reports from Hamburg.**

Police spokesman Reinhard Fallak told a news conference in the northern port city of Hamburg that investigators had received "information from a serious source" about the attack plans.

He declined to reveal any details.

More than 100 police were being deployed around the clock to protect the building and seal off the area, he said. They were blocking off traffic in front of the consulate, which lies on the city's Alster Lake, and erecting tank traps, Mr Fallak said.

"We can't rule out that the plan could be put into action," the police spokesman told reporters.

"It is probable that this is related to the attacks on US installations in Kenya and Tanzania," Mr Fallak added.

More than 260 people were killed and more than 5,000 wounded in the twin embassy bombings in Africa, blamed by the US on Saudi dissident Osama bin Laden. A suspected close associate of Mr bin Laden was arrested by German police in Munich last week.

FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. The shareholder of the Financial Times (Europe) GmbH is Pearson Overseas Holdings Limited, 3 Burlington Gardens, London, W1X 1LE. Shareholder of this company is Pearson plc, registered at the same address.
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Responsible for Advertising content: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boetie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor Richard Lambert. ISSN 1148-2753 Commission Paritaire No 67808D
SWEDEN:
Responsible Publisher: Bradley P Johnson. Telephone +46 8 791 2345. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

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NEWS DIGEST

NEW ATHENS STRIKES

Greek aviation dispute grounds flights

Greek airport and transport workers spurned government reform efforts yesterday, kicking off a new strike season with across-the-board work stoppages.

Strikes also looked likely to continue among state doctors who have rejected government plans aimed at making the hospital system more efficient.

Airport officials said about half of scheduled flights in and out of the country would be cancelled or delayed as a result of labour action. The airport workers' union OSYPA said only emergency flights had left.

OSYPA, comprising nearly all branches of airport staff including baggage handlers and drivers but excluding pilots and air traffic controllers, called a four-day strike against government plans to break up the civil aviation service into three separate branches. **Reuters, Athens**

POLISH POLITICS

Solidarity union poll

The Solidarity trade union, the pillar of Poland's government, looked set yesterday to re-elect Marian Krzaklewski as its leader, making it likely that he will bid for the country's presidency in 2000.

Mr Krzaklewski succeeded the former president Lech Walesa as head of the union in 1990 and a three-day Solidarity congress in the southern mining city of Jastrzembie Zdroj should see him anointed for a third term as its leader, officials said.

The congress will also discuss Solidarity's ambiguous role as a trade union with major influence over a ruling coalition which must take painful economic decisions, they added.

Mr Krzaklewski created the Solidarity Election Action (AWS) alliance last year, grouping more than 30 small rightwing parties in a bloc that defeated ex-communists in last September's polls. But he resisted pressure to become prime minister, preferring to prepare for a challenge to President Aleksander Kwasniewski, a former communist, in the presidential elections. **Reuters, Warsaw**

ALBANIAN UNREST

Premier seeks party backing

Fatos Nano, the Albanian prime minister, yesterday met leaders of his Socialist party to seek a vote of confidence in him and his coalition government. He said he wanted to reaffirm their trust in his authority before releasing a three-month plan to strengthen governance in his chaoticcountry.

The plan targets law and order, economic stability, corruption and the constitution as a way of tackling chronic instability.

Mr Nano's 14-month-old government barely escaped opposition violence last week when supporters of the Democratic Party, led by former President Sali Berisha, looted shops and burnt government buildings.

The unrest flared after the murder of a senior Berisha aide, Azem Hajdari, on September 12. The opposition has blamed the government for his death. **Reuters, Tirana**

NAZI FORCED LABOUR

German companies to be sued

Lawyers acting for forced labourers who worked at German companies during the Nazi period are planning to sue 10 German companies for compensation in US courts next week, a Munich-based lawyer said yesterday.

The names of the companies included in the legal action will be made public next week, Michael Witti said, calling on both the companies involved and the Confederation of German Industry (BDI) to enter discussions with the lawyers. No indication was given of the amount of money that will be sought in the court case.

This latest legal action comes one month after a US class action suit, brought by Mr Witti and the US lawyer Ed Fagan, seeking damages for survivors who were among some 2m people forced to work in Nazi factories between 1933 and 1945. It named many top German companies, including Siemens, Volkswagen, Daimler-Benz, BMW and Henkel.

Mr Witti said that an announcement on Wednesday by Siemens that it planned to set up a DM20m ($11m) fund to compensate forced labourers was merely an attempt at an easy solution. The Siemens move follows the announcement earlier this month by Volkswagen that it, too, would set up a DM20m fund. **Reuters, Frankfurt**

HOSTAGE RAID

Greek police chief quits

Greece's chief of police resigned after a botched raid to free hostages left eight injured in a grenade explosion, George Romeos, the public order minister, said yesterday. Mr Romeos said he had offered his own resignation to Costas Simitis, the prime minister, but it had been declined.

A 26-year-old woman lost her leg and was fighting for her life and at least seven other people were wounded in the raid after police burst into a central Athens apartment on Wednesday night to free three people held hostage.

A Romanian convict, Romanian national Soren Matei, was recaptured. Matei, Greece's most wanted criminal, had escaped five times from prison and humiliated Greek police with his most recent breakout on September 9.

"The leadership of the public order ministry and the police should have the basic sensitivity and resign ... They are mainly responsible for this tragedy," said Prokopis Pavlopoulos, a senior member of the main opposition New Democracy party. **Reuters, Athens**

IRAQ NUCLEAR PLANS

Wanted German arrested

A fugitive German engineer suspected of providing uranium enrichment plans to Iraq was arrested at Frankfurt airport yesterday, police said.

Federal criminal police in Wiesbaden confirmed a report by the Bild newspaper that Karl-Heinz Schaab, who has been sought since he fled the country in January 1996, was arrested after arriving from São Paulo, Brazil.

Authorities accuse the 63-year-old engineer of providing Iraq with construction plans for a uranium enrichment plant for DM2m ($1.1m). The plans were found by UN inspectors in Iraq.

Mr Schaab disappeared from his home in Kaufbeuren in January 1996. He was arrested in December that year in Rio de Janeiro while reportedly trying to obtain a permanent visa but released after 15 months in custody when Brazil's supreme court rejected Germany's extradition request.

The Hamburg weekly magazine Der Spiegel reported in March that Schaab had hired an attorney in Augsburg to negotiate conditions for his voluntary return. **AP, Frankfurt**

RUSSIAN COLLAPSE TO BLAME RECOVERY VALUE OF TREASURY BILLS 40%-50% OF ORIGINAL VALUE, SAYS STANDARD & POOR'S

Ukraine 'has defaulted on domestic government debt'

By Edward Luce in London and Charles Clover in Kiev

Standard & Poor's, the US credit rating agency, yesterday said Ukraine had followed Russia's lead and defaulted on its domestic government debt.

The statement came three weeks after Ukraine offered to exchange its domestic hryvnia-denominated bonds for new bonds with a lower yield. The offer was two-tiered, with different conditions applying to foreign and domestic investors.

Although the exchange was voluntary, foreign and domestic banks had little choice but to accept the unfavourable terms on offer or face even worse terms at a later date under a compulsory restructuring.

"Both debt exchanges constitute defaults," said the agency. "The recovery value of Treasury bills held by foreign investors is estimated at around 40-50 per cent [of their original value]."

Ukraine's default appears to be a direct consequence of the financial collapse in Russia. Though the terms of the default were similar, investors in Ukrainian bonds have been hit less hard. The recovery value for foreign holders of Russia's GKO domestic government bonds was below 10 per cent.

Victor Yushchenko, the governor of the central bank, said yesterday the ministry of finance had offered to negotiate a debt restructuring with all foreign holders of Ukraine's domestic government bonds.

Investors holding 200m hryvnia in proceeds from a Ukrainian bond issue which matured on Tuesday are still waiting to convert their money into dollars, as Ukraine's central bank and Merrill Lynch, the investment bank which arranged the deal, argue about whether Ukraine is obliged to pay.

At issue is whether Ukraine's central bank signed an agreement with Merrill Lynch to convert the hryvnia proceeds from the 375m hryvnia ($120.9m) bond issue, which was hedged against devaluation at a minimum of $170m.

Some 60 per cent of investors opted voluntarily to roll over their maturing bonds into longer-term instruments, according to a restructuring programme first offered by the ministry of finance two weeks ago.

If the central bank does not pay the remaining investors, and it is decided that the bank had originally agreed to do so, Ukraine could be sued for default. That could in turn trigger a cross-default in $1.5bn-worth of Ukrainian eurobonds and other external debt, which would immediately fall due. This is a sum greater than Ukraine's hard currency reserves.

"If the [central bank] does not convert the hryvnia into dollars, then that would most likely cause cross-default for Ukraine," said Alexander Bazarov, head of the Kiev office of Credit Suisse First Boston, the investment bank. "I do not envy my compatriots who have to make this decision."

If the central bank does convert the hryvnia into dollars, this would cost them roughly $70m in foreign exchange reserves, and endanger a $2.2bn, three-year loan from the IMF. Further disbursements of the IMF loan are conditional on the central bank having reserves of $1.33bn at the end of September.

By actually paying the investors who did not accept the conversion deal, the government may have angered investors who did.

The finance ministry had originally said it would only go ahead with the conversion deal if it was 100 per cent subscribed, to eliminate a "free-rider" problem, where some investors were paid off while others had to restructure.

A pensioner begs at a Kiev store as two customers enjoy snacks on the doorstep. An average pension is worth $19 a month Reuters

Turkish minister quits over 'gangster' tapes

A Turkish cabinet minister stepped down as a member of parliament yesterday and said he would resign as a minister, following threats from opposition MPs to bring down the government, Reuter reports from Ankara.

The state-run Anatolian news agency said Eyup Asik had submitted his resignation to the parliamentary speaker's office and would resign as a state minister when the prime minister, Mesut Yilmaz, returned from a trip to the US and Mexico next week.

The Republican People's party (CHP), a leftwing group that props up Mr Yilmaz's minority coalition, threatened to topple the government if Mr Asik did not resign over alleged links to a security scandal.

Turkish television has broadcast what it says are tapes of telephone conversations between Mr Asik and a suspected gangster, Alaadin Cakici, in which the minister allegedly helped him avoid arrest.

The CHP leader, Deniz Baykal, accused Mr Yilmaz of having known about the alleged contacts between the minister and Mr Cakici, and called for the government's resignation.

"The prime minister dispatched security forces after him [Cakici]. The minister, with the knowledge of the prime minister, warned him the police were coming," said Mr Baykal.

The CHP's 55 deputies hold the balance of power in the 550-seat parliament and have used their influence to force Mr Yilmaz to call early elections, repeatedly threatening to topple the his conservative-led government.

The Anatolian news agency said prosecutors were examining tapes of the alleged conversations between Mr Asik and Mr Cakici, who was detained last month on the French Riviera carrying a Turkish diplomatic passport. He is wanted in Turkey on charges of murder and extortion.

Mr Yilmaz has denied reports that Mr Cakici had carried out undercover work abroad for the state but the affair has rekindled a scandal over allegations that politicians and security officials used rightwing gangsters to kill political and business opponents.

Increasing the pressure on Mr Yilmaz, several thousand Islamists gathered on the streets of Istanbul yesterday to protest against a 10-month jail sentence on the city's mayor for "provoking hatred". They called for the prime minister's resignation because of the legal clampdown on Islamic activism since he took office.

Spain may set lower budget deficit target

By David White in Madrid

Spain's centre-right cabinet is set today to approve a draft 1999 budget which aims to reduce the public deficit below the target set in the country's European convergence programme.

The government has already indicated it expects to be able to trim its deficit target, from 1.8 per cent of gross domestic product to 1.7 per cent.

Officials say it may now pitch its objective slightly below this, in view of expected further cuts in interest rates and the cost of servicing public debt.

This would compare with this year's target of 2.2 per cent and a 1997 figure of 2.6 per cent, well within the qualifying level for the European single currency. The previous year, Spain's public sector shortfall was 4.6 per cent.

The budget bill, to be sent to parliament next week, is expected to fix a maximum 3.9 per cent increase for government expenditure in current terms.

But it will allow for larger increases in areas such as education and health, as well as an extra provision for defence to cover the phasing out of compulsory military service and the creation of fully professional armed forces by the end of 2002. Public sector investment is expected to rise by about 5.5 per cent.

The budget figures will be based on the assumption of 1.8 per cent inflation, down from the current annual rate of 2.1 per cent. The inflation target will serve as the benchmark for public sector wage increases.

The plan is pegged to hopes that, despite global financial turbulence, Spain will be able to keep economic growth going at a rate in real terms near the 3.7 per cent expected this year, one of the highest in the European Union. This would mean that public spending, while growing in volume, would reduce its weight in the economy as a whole.

The bill will allow for big spending rises in education and health

Earlier this week, it trimmed its official 1999 growth forecast from 3.9 to 3.8 per cent. Private sector economists in Madrid believe a realistic figure would now be nearer 3 per cent, because of the downturn in export prospects.

The government is counting on continued strong expansion of domestic demand. It sees this as generating enough budget revenues to offset income tax cuts effective from January. Officials indicated that total government revenues could still grow by some 5 per cent on a current peseta basis.

Bondevik hits trouble on his first day back

Norway's prime minister, Kjell Magne Bondevik, ran into opposition charges that his government was "weak and unstable" when he returned to work yesterday, after 25 days on sick leave for depression, **Reuters** reports from Oslo.

Mr Bondevik, 51, a teetotal priest in Norway's Lutheran state church and a former foreign minister, looked fit as he arrived at work, returning to woes including soaring interest rates and a plunge in oil prices. But the opposition Labour party, by far the biggest in parliament, launched an immediate attack.

"We see things are not going well with a weak and unstable government. Norway needs a strong government," said Thorbjoern Jagland, Labour party leader. "We are ready to take over responsibility, if there is anyone to share it with." It was his clearest challenge yet to Mr Bondevik's three-party coalition.

"Back to a political nightmare," the daily Verdens Gang said of Mr Bondevik's tasks in holding together his fractious coalition that controls only 42 of 165 seats in parliament. Labour has 65 seats.

Bondevik returns to his office in Oslo yesterday Reuters

Mr Bondevik's first days will show whether he can reassert his authority, almost a year after taking power. Political commentators say he has been weakened by his apparent inability to withstand stress, even though opinion polls have indicated a groundswell of sympathy.

Mr Bondevik's problems include an economy slowing sharply after a plunge in oil prices earlier this year to a 10-year-low, and tensions within his coalition over the 1999 budget, to be presented on October 5. Norway is the world's biggest oil exporter after Saudi Arabia, and pumps 3.1m barrels a day.

Mr Bondevik had a charmed first few months as prime minister, hailed by newspaper headlines such as "Bondevik Triumphs" or "Victory on all Fronts". But he seemed unprepared for the oil price fall, a surge in interest rates, and a run on the krone.

Swiss vote could delay Alpine tunnels project

By William Hall in Zurich

Switzerland's plan to build two vital rail tunnels through the Alps could face serious delays if Swiss voters next Sunday reject a new road tax on heavy vehicles to finance the SFr30bn ($21.4bn) project.

The referendum, launched by opponents of a proposed weight- and distance-related toll for heavy goods vehicles, has proved one of the most contentious in recent Swiss history.

Not only would a rejection delay two important projects, it would also further complicate Switzerland's relations with the European Union.

Switzerland is one of the first European countries to introduce a form of road-pricing to try to reverse the rapid increase in road traffic by shifting it to rail. The two tunnels are designed to relieve congestion on Europe's most heavily used alpine crossing.

Opponents of the new tax, led by the Swiss trucking industry, claim it would cost each household an extra SFr500 a year. Hans Kaufmann, chief economist of Bank Julius Baer, described the proposed levy as a "simple tax increase masquerading under environmental colours". He said Switzerland needed only one new tunnel, the Gotthard, not two.

Supporters of the tax say it will cost only SFr11-SFr50 per household per year.

If voters reject the tax, the government will almost certainly cancel a vote on the financing of the Neue Eisenbahn-Alpen Transversale (Neat) project, Europe's biggest construction project, scheduled for November 29. If this financing is not in place then, the construction of the 36km Lötschberg tunnel and the 58km Gotthard tunnel will not be able to start on time. Completion would probably be delayed until well after 2010.

Switzerland committed itself to building two new tunnels in the early 1990s as part of a transport agreement with the EU banning the passage of 40-tonne trucks through Switzerland. An estimated 1m trucks a year are diverted around Switzerland as a result of the ban, causing congestion in places such as Austria's Brenner pass.

Switzerland had hoped to have its new tunnels operating by 2005 when the EU agreement expired.

The outcome of the referendum will also have an important bearing on Switzerland's efforts to finalise a bilateral trade agreement with the European Union. Earlier this year Switzerland and the EU presidency appeared to have settled their transport differences, the main unresolved issue, by agreeing to impose a performance-related tax on EU trucks driving through Switzerland.

The Swiss government had originally hoped to charge SFr600 a truck to encourage the diversion of road traffic to rail, but it was eventually forced to accept SFr325. The scale of the charge is still unacceptable to some EU members, although the Swiss hope Germany will soften its opposition after this weekend's elections.

If the Swiss electorate rejects efforts to introduce the road tax, it will be very difficult for Switzerland to resume negotiations with the EU over imposition of a performance-related tax on EU trucks crossing the Alps.

CLINTON PRESIDENCY 'DELIBERATE SPEED' IN DECIDING WHETHER TO BEGIN HEARINGS ON LEWINSKY CASE

Congress impeachment timetable outlined

By Richard Wolffe in Washington

US congressmen yesterday outlined a rapid timetable to launch an impeachment inquiry into President Bill Clinton's conduct in the Monica Lewinsky affair, after the release of further unpublished evidence from the Starr investigation next week.

Henry Hyde, the influential chairman of the House judiciary committee, said he was proceeding with "deliberate speed" to take a first vote on October 5 over whether to begin impeachment hearings.

A full vote of the House of Representatives would take place to confirm that decision by October 9, before Congress departs to campaign for the mid-term elections at the start of November.

Mr Hyde confirmed that Republicans had rejected any talk of a compromise deal with the White House which would allow the president to face a motion of censure rather than impeachment charges.

"I do not know anybody... on the committee on the Republican side who is contemplating anything remotely close to a deal," Mr Hyde said.

He insisted that the committee would uphold the rule of law, indicating he was prepared to take a tough line on accusations that the president committed perjury in an attempt to cover up the 18-month affair with Ms Lewinsky.

"The foundation of our legal system is based on telling the truth," he said.

However, he in effect ruled out any widening of the inquiry beyond the Lewinsky affair.

The judiciary committee meets today to discuss the release of the remaining 18 boxes of evidence filed by Kenneth Starr, the independent counsel. Committee sources say the documents – including transcripts of undercover tapes of Monica Lewinsky – are likely to be heavily censored.

However there seems little prospect of the committee's Republicans and Democrats burying their bitter differences over how much of them to censor, or how to proceed with an impeachment inquiry.

Maxine Waters, a senior Democrat on the committee, said she was determined to show that the Starr evidence did not warrant a full impeachment inquiry.

She said: "So far what we have seen is not impeachable and I would prefer to take a look at everything they claim is impeachable and destroy that evidence in terms of taking it apart, dissecting it and showing it up."

But there were no signs that the Republican leadership intends to lower the stakes over the president's relationship with the former White House intern.

Tom DeLay, the Republican whip in the House of Representatives, yesterday rejected Democratic suggestions that there could be a quick compromise deal to end the scandal.

Mr DeLay, a fierce and long-standing critic of the president, said: "There's a decision that we are going to stay the course, and there is no room for any deals."

US visa plan for high-tech workers

By Richard Wolffe in Washington

The US Congress is expected to approve controversial legislation to expand the number of visas for highly skilled foreign workers by more than 300,000 over the next three years.

Both the Senate and House of Representatives are likely to back the expansion programme – aimed at meeting an acute shortage of workers in high-technology industry – after the White House reached a compromise deal with key Republicans late on Wednesday.

President Bill Clinton had threatened to veto an earlier Senate bill on H-1B visas for highly skilled workers, because the bill did not provide adequate protection to the US workforce. But the new compromise deal envisages an end to the expansion programme in 2002, when the number of H-1B visas will fall back to its current level of 65,000 a year.

The current allocation of 65,000 was exhausted in May in the face of strong demand for foreign recruits in the computer industry. Under the newly proposed bill, that limit would rise to 115,000 for the next two years before falling to 107,500 in 2001.

The issue of foreign worker visas has sharply split both the Republican and Democratic parties, as pro-union Democrats have allied with anti-immigration Republicans to oppose the expansion.

Under the compromise deal, businesses will pay a $500 fee for each visa request and renewal. The fees will fund around $250m of college scholarships over three years for maths, engineering and computer students who have limited resources of their own.

The deal also meets White House concerns by extending the powers of the Labour Department to investigate any suspected abuses of the visa programme until 2002.

However, the US electronics industry has lobbied hard for approval of an expanded visa bill as soon as possible, arguing that the number of US undergraduate degrees in key science disciplines has declined by more than 11 per cent since 1990.

William Archey, president of the American Electronics Association, said 20,000-30,000 H-1B visa applications were now on hold at the US immigration service. "In this very tight market for talented high-skilled workers, our companies are losing these skilled workers to foreign competition," he said.

How to save Brazil without really appearing to try

By Stephen Fidler in Washington

Is Brazil too big to fail or too big to save? This question has pre-occupied the financial markets internationally since Russia devalued and announced a debt standstill last month.

Now, one part of the question appears to have been largely answered. The implications for the international financial system if Brazil became the next domino to collapse into financial crisis would be so dire that a significant international effort would be mounted to prevent it.

A senior official of the International Monetary Fund said as much yesterday, citing the country's "systemic" implications. Other senior officials have indicated strongly that before they embark on a more profound look at what they call the international financial architecture, the first priority is to stop too much damage being inflicted on the global financial system – and the key to that is Brazil.

The question to which the international and Brazilian policymakers do not know the answer, is whether, if it came to the crunch, the country would be too big to save.

An important part of the approach – carefully choreographed between Brazilian, US and international officials to avoid such a crunch – came on Wednesday.

First, Fernando Henrique Cardoso, Brazil's president – who is standing for re-election next month – delivered a message of fiscal austerity, which the IMF official said was "not that common" before an election.

This was then duly applauded by the US Treasury, the IMF and the World Bank, which made clear they would stand by the Brazilians.

Yesterday, the senior IMF official said that, if needed, the IMF would be part of a financial support package, which would also include multilateral finance from the World Bank and Inter-American Development Bank, bilateral finance from other governments and money from the international private sector.

The final step was the statement by Alan Greenspan, Fed chairman, who made plain his concern that global financial turmoil should be ended soon, and dropped a strong hint that, as a result, he would persuade the policy-setting Federal Open Market Committee to lower interest rates when it met next Tuesday.

Yet, if it can be avoided, the Brazilian government does not want to ask for IMF support until after the election. This, which Mr Cardoso hopes he can win in the first round on October 4. Ideally, the request for IMF support would be delayed until November, after Congress has passed social security and tax reform proposals, which would greatly help the credibility of any programme.

A senior finance official in Washington said this week that an IMF programme for Brazil was a certainty, but only after the election. "It's like Clinton and Lewinsky; they want to find a way to admit they are intimate, without going the whole way," the official said.

If this much is established, other questions remain before the planned visit next week to Washington by Pedro Malan, Brazil's finance minister. Though the immediate pressure appeared to have lifted on the Brazilian financial markets yesterday, one of those questions is what would happen if the Brazilian timetable was disrupted. The senior fund official said a contingency fund for Latin America suggested on Wednesday by Mr Cardoso was not the IMF's central focus.

Another question is what an eventual IMF programme would say about Brazilian exchange rate policy.

A third concerns the nature and amounts of the ancillary financing to the IMF. The IMF official said the institution's liquid resources – generally estimated at between $5bn and $9bn – remain sufficient, if added to the $15bn general arrangements to borrow also at its disposal, to handle its contribution to Brazil.

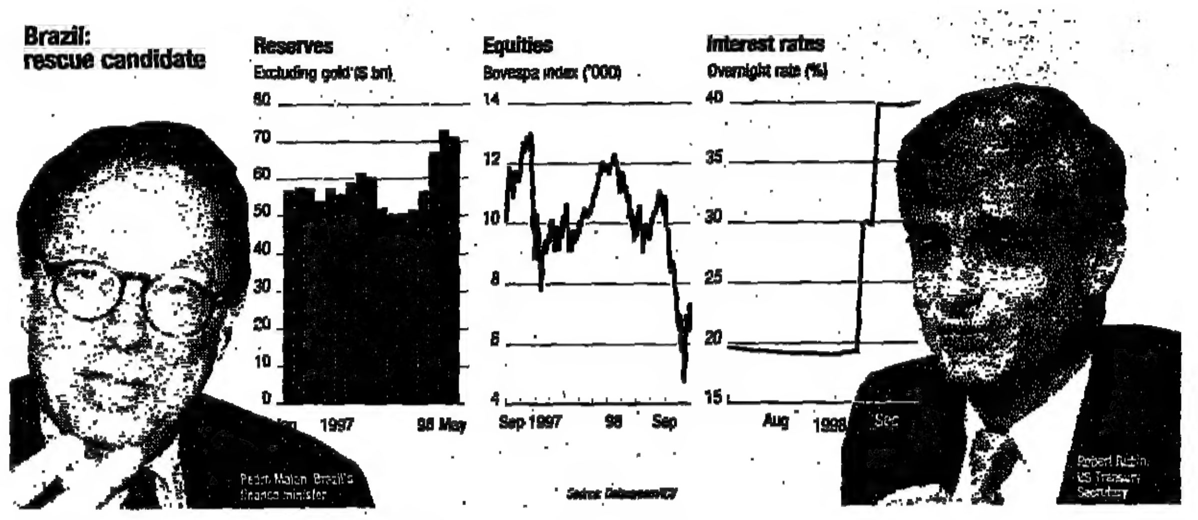
However, it has been kept deliberately vague whether US bilateral financing would be available, though this possibility was hinted at by Robert Rubin, the US Treasury secretary, who said on Wednesday: "Brazil's prosperity and financial stability is critically important to the US and the Americas more generally."

It is also uncertain whether the private sector will indeed step up to the plate, as some senior bankers have suggested. Stanley Fischer, the IMF's deputy managing director, has met senior international bankers in London and in New York over the past two weeks to try to secure their support.

Charles Dallara, managing director of the Institute for International Finance, a group that speaks for many financial institutions, said it was essential that the private sector should "work together" with governments to resolve Brazil's crisis.

Some remain sceptical of private-sector involvement, however, but some Brazilian analysts point out that Brazil has future privatisation receipts which could be used as the basis to guarantee borrowing from foreign banks and investors.

George Soros, the international investor, when asked last week about the meetings between Mr Fischer and the banks, described them as "jawboning".



Mexican business chief arrested

By Henry Tricks in Mexico City

Mexican authorities have arrested on tax fraud charges José Martínez Guitrón, the former billionaire whose steel and tourism conglomerate Sidek left some $2.3bn in unpaid debts in the wake of the 1994 peso crisis.

His arrest was expected partially to appease political opponents of a controversial $65bn rescue of the banking sector. The debts of Sidek, the first big Mexican company to default on its debts in 1995, are believed to have bolstered the high cost of the bailout for the bank insurance fund, Fobaproa.

Mexican tax inspectors accused Mr Martínez Guitrón and another top Sidek executive, José Manuel Gómez Gil, of under-reporting earnings from six subsidiaries and failing to pay some 106m pesos ($10.5m) in taxes in 1995. They were arrested, however, on charges of not paying 50m pesos in taxes. The two are eligible for bail.

The arrests followed a recent pledge by President Ernesto Zedillo to crack down on white-collar crime. His government is fighting a political battle with opposition parties to win congressional approval to transfer the spiralling cost of the Fobaproa bailout to Mexico's public sector debt.

Opposition parties have said the bailout proposal would enable wealthy businessmen to dump their debts on to the taxpayer.

Sidek's creditors, however, recently completed drawn-out negotiations with the company to recover part of the losses by selling off Sidek assets.

Sidek, via its Guadalajara-based tourism subsidiary Situr, became Mexico's biggest property developer in the boom years prior to 1994, buying up hotels and other luxury sites that went bust when the peso crashed. The leftwing Party of the Democratic Revolution (PRD) said in August a large chunk of its debts had been transferred to Fobaproa to ease strain on Mexican bank creditors.

The government has accused three prominent bankers of fraud in the aftermath of the peso crisis, but that has not assuaged calls from the opposition for more heads to roll.

CENSUS BUREAU PRESIDENT CLINTON CLAIMS FIGURES CONFIRM THE SUCCESS OF HIS ECONOMIC POLICIES

Poverty levels in US fall to eight-year low

By Gerard Baker in Washington

US household incomes rose in 1997 for the third straight year, taking poverty levels back to their lowest since 1989, the US Census Bureau reported yesterday.

Last year, 13.3 per cent of Americans lived in poverty, down from 13.7 per cent in 1996, according to the bureau's annual income and poverty report. The largest falls in poverty by ethnic groups were among blacks and Hispanics. The number of poor blacks dropped by 600,000 to 9.1m, although the proportion of blacks living in poverty was still over 25 per cent. For Hispanics, the poverty rate dropped to 27.1 per cent.

Last year, a family of four was considered poor if its annual income was $16,400 or less; for a family of three the poverty threshold was $12,802.

The poverty rate for white Americans was 11 per cent and the gap between the wealthiest and poorest was unchanged between 1996 and 1997. The difference between men's and women's earnings was also the same, with average women's earnings at 74 per cent of men's.

The median household income for all Americans rose 1.9 per cent in 1997 to $37,005, little changed from its peak in 1989.

President Bill Clinton welcomed the figures and said they confirmed the success of his economic policies. "All Americans have a right to be proud of these gains," Mr Clinton said.

"But we can't let these good times lull us into complacency. We must work even harder to make sure that as our nation races forward, we give everyone a chance to come along."

Meanwhile, the Commerce Department reported that the US economy expanded at a slightly faster rate than previously estimated in the three months to June.

Gross domestic product grew at a 1.8 per cent annual rate in the second quarter, a substantial slowdown from the 5.5 per cent pace recorded in the first three months of the year. But the revised figure was up from the 1.6 per cent rate estimated a month ago and the initial 1.4 per cent estimate in July.

As previously reported, the main factors behind the deceleration were a sharp slowdown in inventory growth and the impact on domestic manufacturers of the Asian economic crisis. Domestic demand remained robust. Consumer spending grew at a 6.1 per cent annual rate and housing construction at a 15 per cent rate. Businesses increased investment in new equipment, including computers, at an 18.8 per cent rate. Government spending rose at a 3.7 per cent rate.

After-tax corporate profits edged up in the second-quarter after declines in the previous six months. They rose 0.6 per cent from the quarter before to a seasonally adjusted annual rate of $481.6bn.

That followed consecutive drops of 1.6 per cent in the first quarter and 3.5 per cent in the fourth quarter of last year.

Sport icon's lustre tarnished by suspicions of drug use

Jurek Martin reflects on the death this week of athlete Florence Griffith Joyner and the questions it raises about the issue of performance-enhancing drugs in American sporting arenas

It is nearly 80 years since Americans first coined the phrase "Say it ain't so, Joe". It was directed at Shoeless Joe Jackson, the star Chicago baseball player accused with seven teammates of conspiring with gamblers to fix the result of the 1919 World Series and, though never convicted, subsequently banned from the sport for life.

With a slight variation it was back in vogue 10 years ago, applied to the US sprinter Florence Griffith Joyner, universally known as Flo-Jo, who was found dead in Los Angeles on Monday.

For the suspicion was that Flo-Jo's stunning successes in the 1988 Seoul Olympics, where she won three gold medals and set the 100m world record that still stands, was the result not, as she claimed, of improved training techniques but of the ingestion of performance-enhancing drugs, either steroids or male growth hormones.

She always denied taking proscribed substances and never failed a drugs test. But, pending the results of an autopsy, her early death at 38 has been widely and instantly ascribed to the after-effects of such substances.

Flo-Jo, of course, was a modern US icon, as Shoeless Joe was before his fall from grace. She was famed for her perfect muscular physique, her multi-coloured six-inch fingernails and her smouldering charisma. Such was her status that it was logical that she would become the first head of President Bill Clinton's Council on Physical Fitness.

But her death is an instant reminder that most sports, American and global, and drugs, performance-enhancing and narcotic, are often indivisible. There were even recent suggestions that Mark McGwire's assault on

She was famed for her physique, her six-inch fingernails and her smouldering charisma

baseball's single-season home run record was somehow invalid because he was taking a steroid-related compound banned in some sports, but not in baseball.

Elsewhere, the Tour de France cycle race was nearly abandoned this year because of police investigations into drug use by some teams. Michelle Smith de Bruin, the Irish swimmer who came from obscurity to capture three golds in the Atlanta Olympics, has been banned for doctoring a drug test, as was a US shotputter for failing one.

Coincidentally, two former East German sports officials were convicted and fined last month for administering performance-enhancing drugs to young female swimmers.

Within the US, each sport tends to have its own rules, often fiercely contested by players' associations as violations of privacy.

Baseball, which puts a premium on natural hand-to-eye co-ordination and whose traditional banes have been alcohol and chewing tobacco, is relatively lax. Its players are fitter and bigger than they were, but no drug has yet been invented that makes a curve ball easier to hit.

Football emphasises size, strength and speed and is, therefore, more susceptible to the use of substances that help all three.

Coaches also used routinely to prescribe drugs enabling players to perform through pain and injury and to raise the level of their intensity, often with deleterious after-effects. This practice is now discouraged, though not necessarily abandoned. On the other hand, basketball's overriding concern is narcotics, including, like football, random testing for those on probation.

Superstars have always enjoyed more licence than run-of-the-mill performers. George Herman Ruth ate, drank and womanised to excess, but he was the Babe and therefore inviolate. The esteem enjoyed by Magic Johnson, the basketball player, survived his contraction of the HIV virus from off-court activities.

So Flo-Jo doubtless will mostly be remembered in America, as Michael Wilbon of the Washington Post wrote this week, as much for the "glorious impression" she left behind as for the suspicion that she did not come by it naturally.

'Flo-Jo' celebrates winning gold at the Seoul Olympic Games AP

Past carnage spurs Florida storm plans

By Bonnie Harrison in Homestead, Florida

The warnings are official. Hurricane Georges is no longer a computer image of swirling yellows, reds and purples churning out there in no man's land. It is a stark reality that has already claimed more than 100 lives in the Dominican Republic and Haiti and buffeted Cuba on its way towards south Florida.

Six years after Hurricane Andrew's devastating visit, Georges, another late-season storm, looms as a menace to residents of Homestead – an area of 30,000 people which was hit the hardest.

No one can predict the full impact – hurricanes are fickle and can still surprise the most seasoned forecasters. But the news from Cuba so far is good: Georges has not yet been as devastating as feared, even though the economic impact on the northern Caribbean is estimated at more than $1bn.

In Homestead, a farming town with a rich historic district and once a vital military community centred around its airforce base, the weather yesterday was reminiscent of the time before Andrew.

It was sunny and still. People were strangely quiet. Some were putting up their shutters and leaving. Others were resolved to stay. There was resignation on the many faces in the crowded shopping plazas.

A steady stream of cars poured north from the Florida Keys under evacuation orders. In a field behind a large recreation complex, people were shovelling sand into containers, which they would take home to create barriers against floods.

The hardest part for some residents was surveying the contents of their homes. It was time once again to pack up the family heirlooms and hope they made it through to the next generation.

Powerful memories of Hurricane Andrew revisit the thousands of people who either survived it or remember the miles of flattened homes and buildings that testified to its brutal strength.

No one expected a computer image to turn into a dragon that would devour cement and steel, shatter glass and scatter debris.

As Andrew moved toward south Florida, evacuations added to the confusion and many people found they had moved to, not from, the danger zone.

Destroying a significant part of Dade County, Andrew was the most costly hurricane in US history. With more than $25bn in damage, the rebuilding process has been slow.

It is still a work in progress and only recently have the fruits of the past six years' work started to ripen.

"We are a strong and determined community," says Steve Shiver, Homestead mayor. "I think the people are a lot more serious and concerned about preparations now."

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US visa plan for high-tec[h] workers

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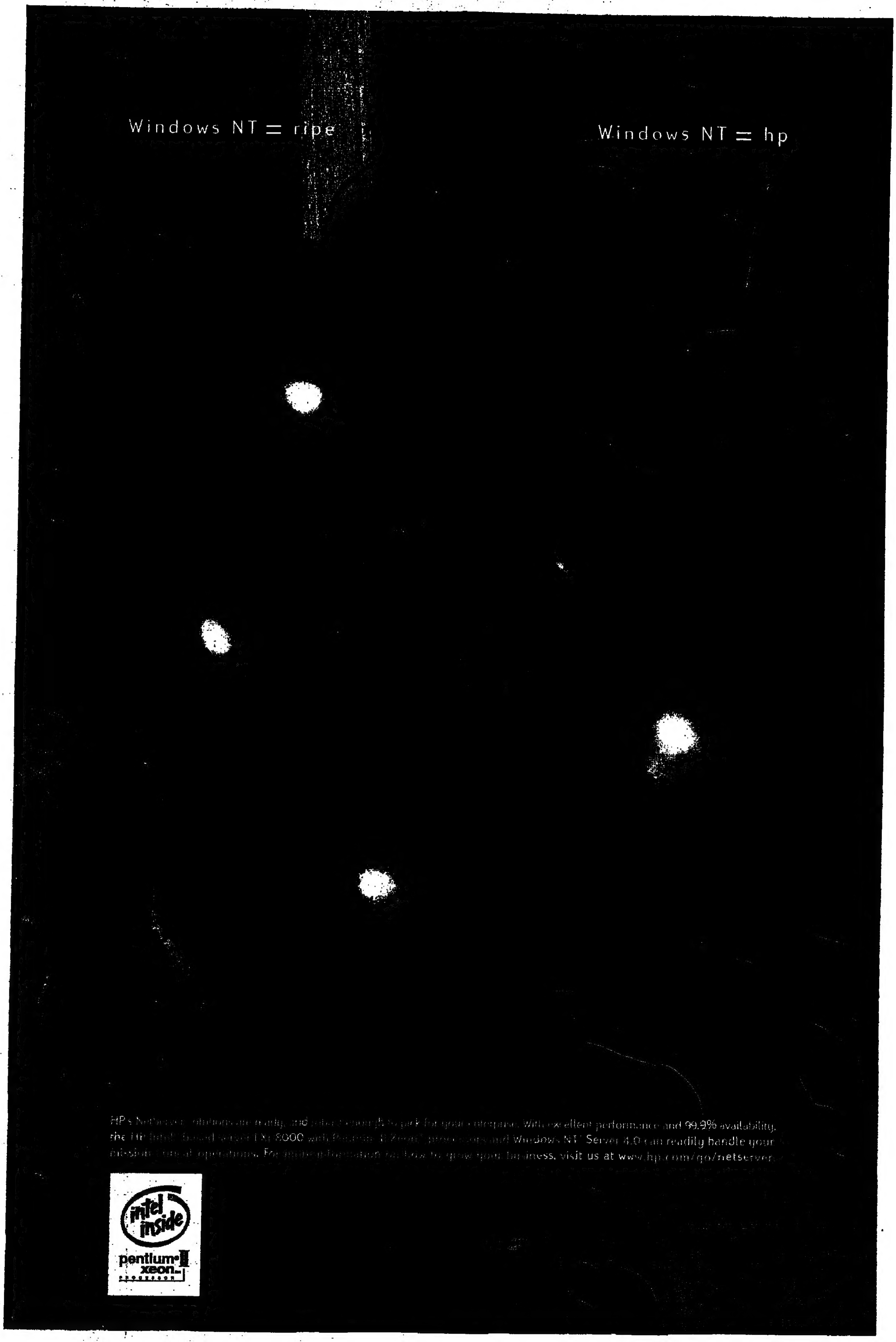
Past carnage spurs Florid[a] storm plans



Pakistan 'fired N Korean missile'

By Alexandra Harney in Tokyo and Farhan Bokhari in Islamabad

Masahiko Komura, Japan's foreign minister, has accused Pakistan of importing missiles from North Korea for a test last April thought to be part of the country's nuclear programme, it emerged yesterday.

At a meeting with his Pakistani counterpart in New York on Tuesday, Mr Komura said Japan would continue sanctions against Pakistan unless the country signed the Comprehensive Test Ban Treaty (CTBT), which outlaws nuclear testing, by next September.

"We have reliable information that the missile used in the launch was imported from North Korea... The prevailing view within the Japanese parliament is that Japan should not offer its official development aid to countries that import missiles from North Korea," Mr Komura said yesterday.

A Pakistani foreign office spokesman denied last night the missile tested by the country was based on imported technology: "Our position is that the missile was indigenous. We have said it many times before." He said the country's scientists and engineers had the expertise to produce the missile in Pakistan and needed no foreign help.

Last month North Korea launched a satellite-carrying rocket towards Japan, derailing negotiations between the two countries and fuelling concerns about Japan's security policy.

Nawaz Sharif, Pakistani prime minister, said earlier this week at the United Nations General Assembly in New York that it was Pakistan's "intention" to join the CTBT, if various conditions were fulfilled, including an end to sanctions against the country.

Pakistan has said it will only sign the CTBT, a 1996 agreement signed by over 140 countries, if India also agrees to join. The participation of both countries, as well as North Korea, is considered critical to the treaty's success.

Mr Komura said the import of missiles from North Korea was "unpardonable". Japan froze most of its development assistance and withdrew its support for additional funding by international financial institutions after Pakistan's underground nuclear tests on May 28 and 30. In April, Pakistan fired a medium-range missile, thought capable of carrying a nuclear warhead.

However, Mr Komura said Japan would consider backing new loans by international institutions, such as the International Monetary Fund, the World Bank, and the Asian Development Bank, because of Pakistan's economic problems.

The US welcomed Mr Sharif's statement. Mike McCurry, White House spokesman, said yesterday.

UN SPEECH PRIME MINISTER'S ASSURANCE COMES IN WAKE OF PAKISTAN'S PLEDGE TO ENDORSE PACT

India prepared to sign N-test treaty

By Laura Silber at the United Nations in New York and Mark Nicholson in New Delhi

Atal Behari Vajpayee, India's prime minister, yesterday said India was ready to conclude discussions on the nuclear test ban treaty, after Pakistan conditionally pledged to endorse the pact.

In his clearest indication yet of India's eventual willingness to accept the treaty, Mr Vajpayee said: "We are prepared to bring these discussions to a successful conclusion, so that the entry into force of the Comprehensive Test Ban Treaty (CTBT) is not delayed beyond September 1999."

Mr Vajpayee's Pakistani counterpart, Nawaz Sharif, said on Wednesday that Pakistan was prepared to sign the CTBT.

But Mr Sharif also made clear that his offer was a conditional one. "In this regard, we expect that the arbitrary restrictions imposed on Pakistan by multilateral institutions will be speedily removed," he said.

After the two leaders met for two hours on Wednesday on the margins of the General Assembly, Mr Vajpayee hailed a new era in relations between the two states.

India has consistently indicated during bilateral talks with the US since Delhi's nuclear test blasts in May that it would not be hurried into signing the CTBT.

Officials have maintained India would accede to the treaty only when it considers the conditions acceptable – hoping in particular to win not just an end to sanctions but also additional benefits in return. In particular, India is seeking the relaxation of US bans on access to nuclear and other sensitive high technology. So far there are no signs the US is willing to agree to this.

Delhi is also under far less economic pressure to sign the treaty and end sanctions than Pakistan. The commitment is critical to Islamabad securing an International Monetary Fund loan agreement and additional external financing to shore up its highly vulnerable external accounts, which were thrown into crisis by the post nuclear test sanctions.

Indian officials have consistently played down the effect of US, Japanese and multilateral sanctions on India's less vulnerable economy. Instead, for India, accession to the CTBT is more a question of attaining a global status which would place it on a par with existing members of the nuclear club, including full access to foreign nuclear technology.

The Indian government has also argued it cannot immediately make an unconditional commitment to the CTBT for domestic political reasons.

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Nuclear threat undiminished in Asia

By David Buchan in London and Farhan Bokhari in Islamabad

Pakistan's undertaking to sign the Comprehensive Test Ban Treaty (CTBT) – and India's statement yesterday – significantly advances prospects of that treaty coming into effect, but scarcely diminishes the nuclear threat from the subcontinent, or Asia as a whole.

Mr Sharif said Pakistan would sign the CTBT in time for next September's review of the treaty, signed in 1996 but yet to come into effect, if his country was freed "of coercion and pressure".

Pakistan clearly expects the US administration to ask Congress for authority to waive the US sanctions slapped on Pakistan, and India, after their atomic tests in May. But it is not clear Islamabad or Delhi have fulfilled all of Washington's demands.

In recent shuttle diplomacy, Strobe Talbott, US undersecretary of state, has also been pressing the two countries to agree to a draft treaty banning production of material which could be used in nuclear warheads.

India and Pakistan are, with some quibbles, going along with these treaty negotiations. But their reaction to Mr Talbot's other demands to stop short of putting their warheads on missiles and to behave as if they were signatories of the Non-Proliferation Treaty by not passing weapons know-how to others are unclear.

To come into effect, the CTBT needs ratification by all 44 countries with civil nuclear programmes. If India and Pakistan now sign the CTBT, the only missing signature out of the 44 will be that of North Korea. But confidence in that country's behaviour has been further shaken by its August 31 firing of a missile over Japan into the Pacific.

Even if the missile was, as the North Koreans claim, a failed satellite launch, Tokyo has reacted with alarm. Its accusation yesterday that Pakistan was importing North Korean missiles, implied that Pakistan was giving a market and encouragement to the Pyongyang regime's arms programme. In addition, Tokyo has joined the US Congress in withholding money for Washington's 1994 deal to "buy out" North Korea's nuclear arms potential by giving it fuel oil and light water reactors to replace riskier heavy water plants.

Another effect of the North Korean missile launch has been to whet Japan's interest in getting anti-missile defences from the US, according to Professor John Simpson, a UK expert on non-proliferation. "This deeply disturbs the Chinese because such defences could negate their nuclear arsenal.

This week's announcements improve the chances of the CTBT coming into effect, though there is grave doubt about US ratification of the global ban.

Philippines braced for airline turmoil

By Tony Tassell in Manila

The Philippines was bracing itself yesterday for the expected fallout on the country's economy from the collapse of its national air carrier.

The closure of Philippines Airlines (PAL), Asia's oldest carrier, on Wednesday night is expected to damp further an already sharply slowing economy.

"It will have a significant impact, if only because of the geography of the country," said Jojo Gonzales, head of strategy for Merrill Lynch Securities Philippines.

As an archipelago of more than 7,000 islands, the Philippines relies heavily on air transport for its tourism industry, as well as for freight movement and a range of services such as cheque-clearing and postal deliveries.

PAL dominated the domestic market and was the sole carrier to a number of urban centres. PAL officials say the airline had a 70-75 per cent share of the domestic cargo market and a 50 per cent share of the domestic passenger market.

Noel Reyes, of the broker Anscor Hagedorn Securities, estimates the closure alone could reduce fourth-quarter gross national product growth by 0.5 percentage points.

The government already estimates growth will slow from 5.8 per cent in 1997 to 1.5 per cent in 1998 and many analysts forecast the economy will shrink by as much as 2 per cent.

Government officials said the closure could also increase the commercial banking system's non-performing loans as a percentage of total loans by up to 0.75 percentage points. Last month, non-performing loans stood at about 9.5 per cent of total loans.

Tourism, which represents about 5 per cent of the total economy, is likely to be especially badly affected by the closure. Roberto Antonio, tourism undersecretary, said it would "badly affect the image of the Philippine tourist industry."

Hun Sen (right) with his political rival Prince Norodom Ranariddh at the Angkor Wat temple in Siem Reap Reuters

Festivities flop as stable government eludes Cambodia

The opposition is determined to block Hun Sen's formal accession, writes **Ted Bardacke**

Yesterday was to be a day of celebration in Cambodia. Gazing up at the full splendour of the magnificent Angkor temples, the country's new national assembly was sworn in by King Norodom Sihanouk. A new government, legitimised by an election in July, should have been only a small step away, bringing a measure of stability to a country which has painfully lacked it for three decades.

Yet the planned festivities were a failure. As Hun Sen, a coup leader and head of the victorious Cambodian People's party (CPP), neared the king's palace, bombs exploded in the back of his motorcade, killing at least one bystander.

Mr Hun Sen's threats to arrest opposition leaders were immediately revived and a travel ban on them was reinforced; instead of attending a potentially important coalition-building meeting, Mr Hun Sen sat fuming in his Landcruiser at the foot of the Angkor complex until a helicopter whisked him back to the capital, Phnom Penh.

The formation of a new government is still a distant dream. The opposition, citing everything from electoral fraud to Mr Hun Sen's authoritarian tendencies, remains united in its determination to block his formal accession to power by refusing him the two-thirds vote necessary in parliament to ratify a government.

"Basically we want Hun Sen out," says Kong Vibol, an aide to Prince Norodom Ranariddh, head of the royalist Funcinpec opposition party. "We can block him democratically, playing by parliamentary rules. We have to convince the CPP that if they want a legitimate and functioning government they have to get rid of Hun Sen."

Mr Hun Sen responds: "If the opposition thinks I'm going to step down they're dreaming. And if they try to dissolve the present government by other means they will face military action."

The international community, principally the European Union, Asean and Japan, brokered and paid for the July polls. But despite a lull in street battles that pulverised Phnom Penh in recent weeks, their objective – stable government led by Hun Sen, legitimised by elections – is unfulfilled. "We're beyond the hand-wringing stage," says one senior diplomat. "Now people are just rolling their eyes at every new development."

In his fury, Mr Hun Sen has offered the opposition three options. He has said they can join him as junior partners in a coalition government; change the constitution to allow a government to be formed by a simple majority in parliament; or continue on with the present government in a caretaker role in perpetuity.

The last option appears most immediately plausible at the moment. But until a new fully fledged government is formed, Cambodia's hopes of regaining its seat at the United Nations, becoming a member of the Association of South East Asian Nations (Asean), and getting a full dose of much-needed development aid "will be put on hold," says an Asian ambassador.

In addition, "decisions will be made by decree" by a caretaker government, says a western electoral official. "That won't be political progress. Not much will have changed in the country to indicate it is moving in a democratic or lawful direction."

Obuchi pledges new bank debt plan

By Paul Abrahams in Tokyo

Japan's ruling Liberal Democratic party and leading opposition parties resumed talks about banking reform yesterday but remained at loggerheads over the issue. Keizo Obuchi, prime minister, promised a new framework to deal with the banks' huge bad debts, effectively acknowledging that last week's hard-won agreement had unravelled.

But the opposition rejected Mr Obuchi's latest proposals, arguing they were too vague, seemed to admit the possibility of using public funds to rescue the troubled Long Term Credit Bank (LTCB) of Japan, and did not give a timetable for stripping financial policy-making powers from the finance ministry.

New financial legislation is critical for formation of a system to deal with the bank's non-performing loans. The government estimates these at Y87,000bn ($636bn), but Moody's, the US rating agency, believes the true figure to be double that. The bad debts have forced the banks to cut their loan portfolios, creating a credit crunch leading to record levels of corporate bankruptcies.

The LDP yesterday offered an 11-page proposal to the opposition, including the replacement of a Y13,000bn pool to help the banking system with a new fund worth Y17,000bn. Though agreeing with opposition suggestions that LTCB should be nationalised, Mr Obuchi continued to propose the bank should be merged with Sumitomo Trust. "The merger should help stabilise financial markets and the economy," he said. The opposition opposes such a merger.

Naoto Kan, leader of the Democrats, the biggest opposition party, rejected the plan. "This is not based on the agreement of the three parties [last week]. We don't intend to have discussions that aren't based on the agreement." The opposition criticised the lack of clarity over LTCB's financial position. If the bank were declared insolvent, it would be illegal to inject public funds under present legislation.

Separately, Atsushi Takahashi, president of Sumitomo Trust, said it would be difficult for his bank to meet the April target date for its merger with LTCB. Mr Takahashi, whose bank had previously insisted it would only take on LTCB's performing loans, yesterday said it might accept some of LTCB's class two loans, normally defined as those raising concern that recovery may be more difficult than on ordinary debts.

The LDP is determined not to allow LTCB to fail, because a collapse would damage its important political supporters in rural Japan. Agricultural co-operatives are large owners of LTCB's derivatives and have lent money to the bank's leasing subsidiaries. A failure would be embarrassing for the finance ministry, which encouraged life insurance companies to buy LTCB's shares. These have fallen more than 90 per cent in the past three months.

Mahathir cancels Anwar austerity measures

By Sheila McNulty in Kuala Lumpur

Mahathir Mohamad, Malaysia's prime minister, moved further against internal dissent yesterday while pushing ahead with his overhaul of the economic system.

But the wife of his sacked deputy, Anwar Ibrahim, released a videotape Mr Anwar made before he was detained that hit directly at the administration.

On the tape, Mr Anwar said the prime minister was "hungry for power and money, and wants to use the remaining time that he has in power to strengthen the interests of his family, and the interests of his cronies".

Government officials made clear they would take firm steps against any Anwar supporters who staged illegal assemblies. Abdul Rahim Noor, inspector-general of police, said: "National security will be undermined if we don't break the plotters." Tens of thousands of people have taken part in such rallies since Mr Anwar was sacked September 2 as deputy prime minister for having "low morals".

Mr Anwar denies allegations ranging from sodomy to treason. He was detained on Sunday for inciting riots, after holding the biggest rally so far. More than 100 people have since been arrested. Mr Anwar appointed his wife, Wan Azizah Wan Ismail, to carry on the movement but she is under investigation. The authorities have restricted her from staging rallies, scrutinising all her visitors and driving media away.

Three men and a woman were charged in magistrate courts yesterday with circulating rumours about riots on the internet. The four pleaded not guilty to the charge, which carries up to two years' jail or a fine, or both, on conviction.

Separately, the government has continued with the economic changes that played a large part in the break between Dr Mahathir and Mr Anwar. Bank Negara, the central bank, rolled back measures designed to safeguard the banking system in hopes of encouraging lending. It said loans would be declared non-performing after six, instead of the usual three, months of default. Banks will no longer be required to provide a 20 per cent specific provision on sub-standard loans. It also loosened curbs on lending to buy shares.

"They're making the problems worse," said Kate O'Donoghue, regional economist at Barclays Capital.

Dr Mahathir confirmed the World Bank was delaying disbursing a US$700m loan to Malaysia until it received a clearer picture of how its new exchange controls were working. But he insisted his new measures were already working.

● Australia's deputy prime minister, Tim Fischer, called for the November Asia Pacific Economic Co-operation summit to be moved out of Malaysia.

Fast track likely to stay in sidings

By Nancy Dunne in Washington

The US House of Representatives is expected to vote whether to give the president fast-track trade negotiating authority either today or tomorrow.

Charlene Barshefsky, the US trade representative, has long tried to bring Republicans and Democrats together behind a "fast-track" bill that both could accept. Yesterday she said: "I don't see that the votes are there among either Republicans or Democrats."

Fast-track legislation allows the president to negotiate trade agreements with a commitment from Congress that the final outcome of talks will be accepted or defeated without amendment.

Its passage has always been one of President Bill Clinton's top objectives, so that he can negotiate in the World Trade Organisation and agree free trade pacts with Asia and Latin America.

However, the administration regards the House intention to vote as a ploy to embarrass the president and split the Democratic party in the run-up to mid-term elections. But the business and agriculture lobbies have taken the Republican leadership at its word, pouring millions into television commercials.

The Business Roundtable's advertisement features a stuttering goat dressed as Uncle Sam, urging voters to call Congress in support of fast track. It hopes that more farm state congressmen can be convinced to support fast-track at a time when agriculture is in crisis.

"If the US government does not do its job of opening foreign markets to our exports, many of our businesses will die and the landscape of American agriculture will be forever changed," said Donna Reifschneider, president of the National Pork Producers.

However, few congressman have changed their minds since Mr Clinton deferred his bid for fast-track last year rather than see it defeated.

Russian crisis likely to benefit China

By James Kynge in Beijing

Russia's economic crisis has freed up more than $2bn in US Eximbank loans, much of which may be made available for projects in China, a senior bank official said.

Steven Howlett, senior business development officer at the bank, said that Eximbank planned to increase its lending to China despite a slowdown in the country's economic growth. He said lending to China would probably rise from about $1.5bn in 1998 to more than $2bn a year by 2000.

"Projects in Russia have literally been eliminated since the [latest] crisis there began," Mr Howlett said. "We are very bullish on China. China is a high-quality market. It is becoming our largest single borrower, just surpassing Mexico."

Eximbank loans are for projects which involve the import of US goods and services. Loans are offered at about one percentage point above Libor, and typically have maturities of up to five years for equipment purchases and up to 10 years for project financing.

Mr Howlett said priority might be given next year to environmentally friendly projects including wind power, hydropower, water treatment and projects to clean up fossil fuel combustion. Power stations undertaken on a build-operate-transfer format were another area of interest, as were US aircraft sales to China, accounting for the lion's share of Eximbank lending to China for several years.

Eximbank's enthusiasm towards China contrasts with a relative scarcity in commercial bank financing and an increasingly gloomy mood among foreign investors in China.

The representatives of several western power companies in Beijing this week said that demand for power in some areas had dropped sharply in recent months, causing some Chinese state companies to seek a review of power purchasing agreements.

Another barrier was insufficient access to renminbi financing.

Cairns group urges end to export subsidies

By Frances Williams in Geneva

Ministers from the Cairns group of agricultural exporting countries yesterday called on the European Union and the US to desist from the increasing use of farm export subsidies which threatens to trigger a full-scale subsidies war.

The statement was made in Geneva to coincide with a meeting of the general council of the World Trade Organisation which is discussing preparations for new global trade talks including agriculture.

The 15-strong Cairns Group wants the negotiations on farm trade, due to begin at the end of next year, to agree the "complete and early elimination of all forms of export subsidies."

However, alarmed by growing short-term pressures for more use of export subsidies as world farm commodity prices weaken, it is calling on the EU and US "to exercise restraint." "In the current global economic environment, intensification of export subsidies would be sheer folly," the statement said.

Most of the Cairns Group members, which is led by Australia, are developing countries in no position to match subsidies by the rich trading powers. They fear a damaging erosion of their existing markets if a subsidies war erupts, as well as restricted opportunities to enter new markets including those in the developing world.

Brussels, the main culprit so far, says its subsidies are within WTO rules but Cairns officials said yesterday that while within the legal limits they were inconsistent with the spirit. They argue that the EU has exploited a loophole in the rules by accumulating subsidy entitlements from previous years when world prices were high.

Meanwhile, WTO members yesterday began the arduous process of deciding on the agenda for the next series of international trade talks which are due to be launched at the third WTO ministerial meeting in the US in late 1999.

The EU yesterday argued for a very broad agenda to be handled as a "single undertaking" within about three years. Support for a broad agenda appears to be widespread across the developed/developing spectrum but there are some important dissenting voices.

India, for instance, yesterday said that a comprehensive trade round would be "premature" and Indonesia, speaking for the Association of South East Asian Nations, also said implementation of existing agreements should have priority.

Countries are also divided on whether or not the negotiations should be a single undertaking, in which "nothing is agreed until ev[…] thing is agreed". Wash[…]ton, in particular, is fea[…] of the talks being held […]tage to accord in the s[…]tive agricultural ar[…] where the EU, Japan […] South Korea can be expe[…] to resist thoroughgo[…] liberalisation of f[…] trade.

There are also divergen[…] of view over what subj[…] should be included in […] talks beyond agriculture […] services on which neg[…]tions are programmed u[…] existing agreements.

Data protection plan for electronic commerce

By Frances Williams in Geneva

The International Chamber of Commerce yesterday presented model clauses for company contracts involving the international transfer of personal information which it believes could head off the looming threat of a transatlantic cyber-trade war.

Under the terms of the model clauses companies outside the European Union would undertake to give personal data emanating from within the EU the same level of protection as the EU's new data protection directive which aims to safeguard individual privacy.

The clauses also provides for legal remedies if consumers believe their legal rights on privacy have been breached.

The EU directive empowers EU authorities to cut off after October 25 exports of many kinds of personal information to countries which they judge not to have adequate data protection arrangements.

This includes the US where data protection has been left to industry self-regulation, raising fears of a severe disruption to US/EU trade and an impediment to the growth of electronic commerce.

The ICC, which has worked out the model contract in consultation with businesses on both sides of the Atlantic, will now submit it to the European Commission for approval.

Christiaan van der Valk, the ICC's electronic commerce specialist, said yesterday that the model clauses fulfilled the EU's specified criteria for the protection of personal data transferred to countries without an established data protection regime.

"Once they are incorporated in a contract, the clauses become fully enforceable for the contracting parties. Provided that the EU Commission endorses them, they would avert a serious interruption of transatlantic data flows," he said in Geneva.

The clauses draw on an existing model contract on data protection drawn up by the European Commission, the ICC and the Council of Europe, and endorsed by the Organisation for Economic Cooperation and Development, as well as OECD recommendations on protecting private data.

Mr van der Valk said the model clauses also fitted in with the desire of business for minimum government regulation of the internet and electronic commerce. "This is a market instrument that companies can use to continue to do business, while still protecting consumers' privacy rig[…]" he said.

The ICC, which ende[…] two-day conference on […]balisation in Geneva ye[…]day, also said it would […] putting forward a broad […] regulatory programme […] electronic commerce at […] OECD meeting in Ott[…] early next month. Mem[…] of the World Trade Orga[…]tion in Geneva are also […]cussing a work progra[…] on electronic comm[…] which could result in the […]mulation of internati[…] cybertrading rules.

NEWS DIGEST

INVESTMENTS IN CHINA

Companies report curbs on repatriating earnings

China has imposed restrictions on the repatriation of earnings by foreign companies, insisting in some cases that they seek official approval each time they remit more than $10,000. The move has prompted concern in foreign embassies in Beijing and follows a series of measures which appear inimical to the interests of foreign investors. "This limit is of great concern. Some of our companies report that they have to get approval to repatriate even $10,000. This is a tiny amount," said one foreign diplomat in Beijing. Other diplomats and company executives, however, said that the limit was not as low as $10,000 but nevertheless reported more checks and delays in hard currency remittances.

The latest restriction on repatriation of earnings seems to have been directed at curbing the outflow of foreign currency from China. **James Kynge, Beijing**

CYBERCRIME

Computer fraud unit set up

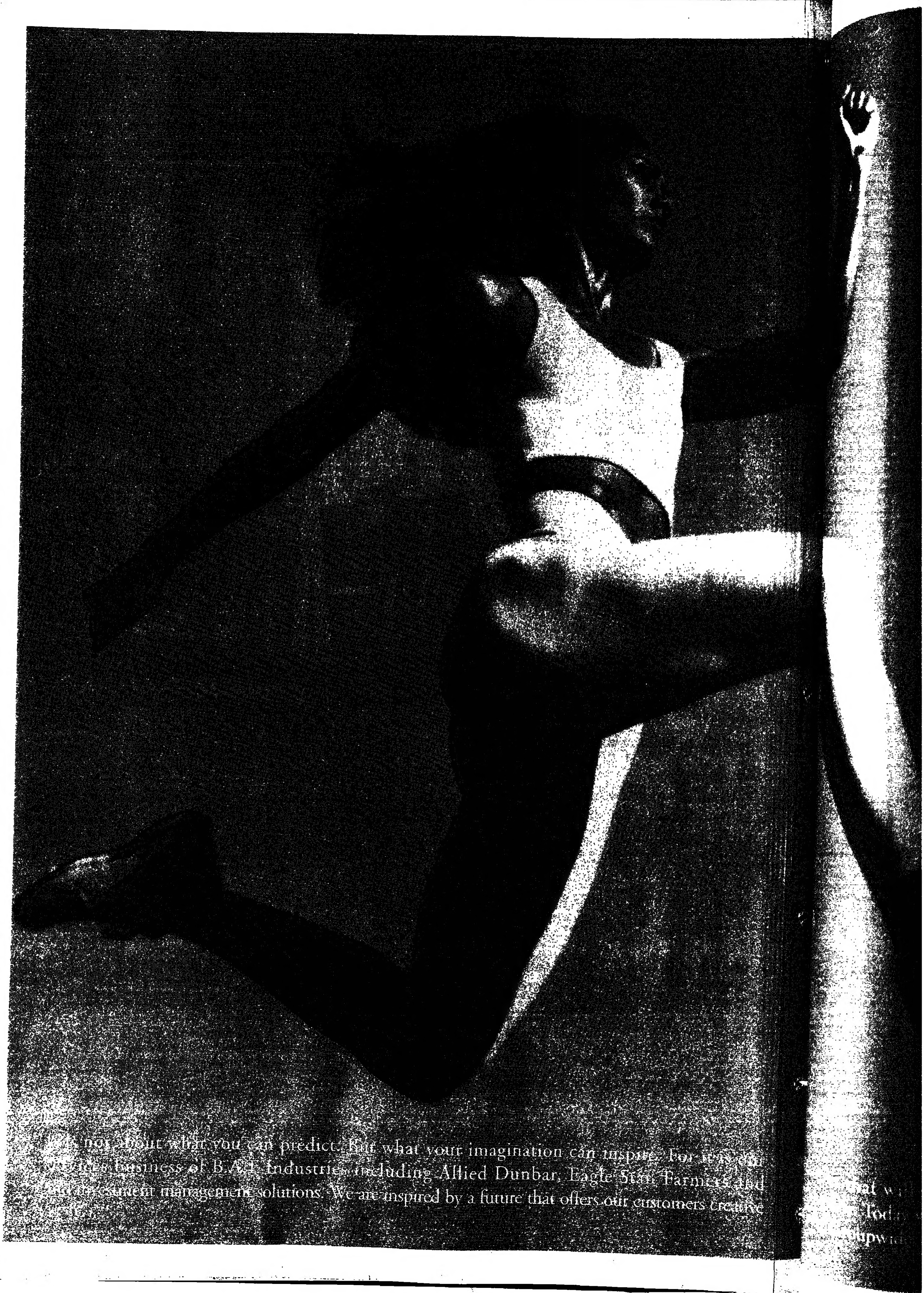
The International Chamber of Commerce yesterday announced the setting-up of a special unit to advise companies on how to combat the growing problem of computer fraud and other cybercrimes. The Paris-based organisation, which groups chambers of commerce and individual companies from over 130 countries, said the new unit would focus on collecting information, advising on prevention measures and issuing warnings about criminal methods and scams. Eric Ellen, who heads the ICC's commercial crime services arm in London, said yesterday that cybercrime was expected to grow at least in line with the explosion of internet use.

The fight against cybercrime is hindered by lack of information on its extent, the ICC said. Most crimes go undetected, and those that are picked up often go unreported to any outside authority. Meanwhile, police forces lack the specialised resources needed to deal effectively with cybercrime. Mr Ellen said the cybercrime unit would provide a focal point for companies to report on crime in confidence, enabling them to share information about how the crimes were committed that might provide lessons in prevention for others. **Frances Williams, Geneva**

SHIPBUILDING

Yard to build seismic vessel

Aker Finnyards, the Rauma-based shipyard of Norwegian holding company Aker RGI, will build a seismic vessel for Aker's seismic company, Aker Geo. Aker Finnyards will be responsible for equipping and modifying a hull constructed in Romania into an eight-streamer seismic vessel for offshore oil and gas exploration. The order marks the first of six planned vessels for Aker's newly launched company, Aker Geo, held jointly by Aker RGI and its oil service company Aker Maritime. **Valeria Sköld, Oslo**


not about what you can predict. But what your imagination can inspire.
business of B.A.T. Industries including Allied Dunbar, Eagle Star, Farmers and
management solutions. We are inspired by a future that offers our customers creative

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INTERNATIONAL

GLOBAL ECONOMIC CRISIS INTERNATIONAL LENDER NEEDS CAPITAL INCREASE AFTER BAIL-OUTS PUT FINANCES UNDER STRAIN

World Bank sounds alarm over risky emergency loans

By Robert Chote, Economics Editor

The World Bank has warned its shareholders that it may need a politically controversial capital increase if it is to continue providing emergency help to countries facing financial crises.

The Bank has so far committed \$8.4bn to Asian countries and Russia that have fallen victim to financial market turbulence. Some directors of the Washington-based institution resent the way it has been forced to help finance short-term liquidity support that is normally the remit of the International Monetary Fund.

The Bank's annual report, published yesterday, showed that the International Bank for Reconstruction and Development (IBRD) – the arm of the Bank that lends to middle-income governments – committed a record \$21.1bn in loans during the fiscal year to end-June.

This was 77.7 per cent of what the Bank regards as a sustainable level of lending in any one fiscal year. Had this ratio hit 80 per cent, formal consideration of a capital increase would have been triggered automatically.

The loans to Asia and Russia have put the Bank's finances under strain not simply because of their size, but also because they have increased the riskiness of its loan portfolio. For example, more of the Bank's lending is now concentrated on a few vulnerable borrowers.

"The deterioration in the quality of the portfolio and the growth in the loan book over the past year has absorbed much of IBRD's risk bearing capacity," the Bank management has told its board. "This means IBRD has very limited scope to expand the volume of its lending at present."

Staff estimate that only two of the Bank's existing large borrowers need to go into arrears before even its normal lending operations would have to be cut back.

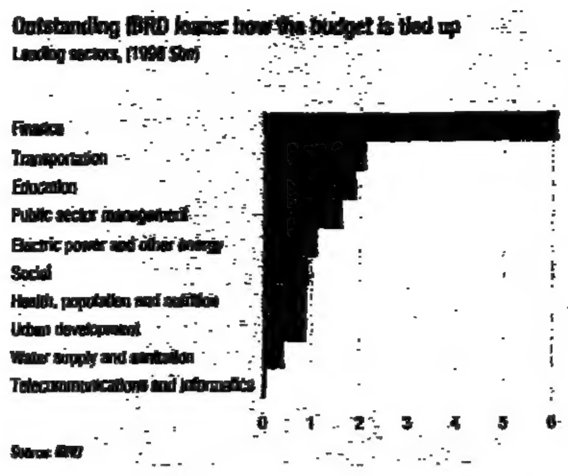
The Bank has sounded the alarm only weeks after its board controversially agreed to boost the institution's income by increasing the cost of loans to its middle-income borrowers. These countries believe they are being forced to pay for the priorities of the richer nations – debt relief for poor countries and short-term rescue packages.

But the Bank management concedes that there is a rationale for it to provide IMF-style finance. Agreement on the long-term structural reforms in which the Bank specialises is now seen as an essential complement to macroeconomic measures in stabilising crisis economies and restoring investor confidence.

Officials believe that if the Bank is to continue providing crisis assistance it should be formalised in new "emergency structural adjustment loans" (ESALs), with shorter repayment periods and higher charges than the Bank's normal loans.

But if the Bank is to offer these loans to the sorts of large, risky, contagion-prone economies that have fallen victim to the crises so far, then it will need to change its financial structure so it can take on more risk.

One option is for member countries to contribute more capital and reserves, although the IMF has demonstrated how hard it might be to persuade the US Congress and other national parliaments. At the end of June the IBRD had paid-in capital of \$11.3bn. During the last fiscal year it also carried out medium and long term borrowing of just over \$28bn, well up on the \$17.7bn recorded in fiscal year 1997.



Another approach would be for shareholders to allow the Bank to operate with fewer reserves relative to the size of its loan book. But as well as making it more likely that shareholders would be called upon to cover bad loans in the future, this could also make it more expensive for the Bank to borrow in financial markets.

A further option would be to sell parts of the Bank's loan portfolio. But this is unlikely to be viable at a time when investors are demanding higher risk premiums. An off-balance sheet facility could also be created, which might allow the Bank to mobilise private sector financing.

These options may all prove so unappealing that shareholders would prefer the Bank to stop providing emergency finance. Some senior Bank officials believe this would be the best outcome, although they recognise that the institution is likely to be called upon to help finance crisis management for as long as the leading industrial countries believe it has spare cash.

RUSHDIE AFFAIR LINKS TO BE RENEWED AFTER TEHRAN REFUSES SUPPORT FOR KHOMEINI FATWA DEMANDING BRITISH AUTHOR'S DEATH

Britain and Iran to exchange ambassadors

By Laura Silber at the United Nations in New York

Britain and Iran yesterday struck a deal to exchange ambassadors, after Iran said it would not threaten the life of Salman Rushdie, the author under a *fatwa* – a religious edict calling for his death – since 1989.

The move comes after Robin Cook, British foreign secretary, flew nearly 24 hours to meet his Iranian counterpart, Kamal Kharazzi, on the margins of the UN General Assembly in New York and after recent intensive diplomatic contacts.

But Iran's announcement does not mean the lifting of the *fatwa* against Mr Rushdie. Shortly before his death, Ayatollah Ruhollah Khomeini issued the *fatwa* declaring the author's "Satanic Verses" were blasphemous.


Rushdie: 'It means everything, it means freedom,' he said last night

For nearly a decade Mr Rushdie, a UK citizen, has lived in hiding under British police protection – his status a major obstacle in Anglo-Iranian relations.

Mr Cooke admitted that the Iranian position stopped short of a repeal of the edict, and expressed doubt that the government could sway the Iranian Fifteenth of Khordad revolutionary foundation to rescind its \$2.5m bounty on Mr Rushdie because of divisions in Iranian society and government.

Asked whether yesterday's announcement amounted to "privatising" the *fatwa*, Mr Cook said: "The threat to Salman Rushdie is diminished by the statement."

He said he believed Mr Rushdie, who was in the Foreign Office when the agreement was announced, would "welcome anything which would reduce the threat to his safety".

In a statement Mr Kharazzi said: "The Government of the Islamic Republic of Iran has no intention, nor is it going, to take any action whatsoever to threaten the life of the author of *The Satanic Verses* or anybody associated with his work, nor will it encourage or assist anybody to do so."

He said Iran "dissociates itself from any reward which has been offered in this regard and does not support it".

Mr Cook said: "These assurances should make possible a much more constructive relationship between the United Kingdom – and I believe the European Union – with Iran and the opening of a new chapter in our relations." The statement was agreed between the two foreign ministers, but it was said in front of television cameras rather than in a formal document.

Mr Cook said Britain's security forces would continue to provide protection for Mr Rushdie. "Of course this does not provide Salman with protection against a fanatic seeking to carry out the original *fatwa*. We will continue to give whatever protection is appropriate to threat."

In an apparent attempt to ease possible anger among Iran's Islamic hardliners, Mr Cook said he "confirmed" that "neither we nor any of our EU partners condoned the content" of Mr Rushdie's book.

Britain and Iran restored diplomatic relations in 1990 after the Iraqi invasion of Kuwait. Iran stayed on the sidelines in that war.

Yesterday's meeting was the first between British and Iranian foreign ministers since 1994, when Douglas Hurd, then foreign secretary, met his counterpart, Ali Akbar Velayati.

The two countries agreed to explore ways to combat drug trafficking, facilitate humanitarian assistance to refugees and work towards resolving conflicts with Afghanistan and Iraq.

NEWS DIGEST

IMPACT OF FINANCIAL TURMOIL

African growth rate likely to fall by 1 or 2 per cent

Africa could lose between 1 and 2 per cent of gross domestic product growth this year because of the global financial crisis, the UN's Industrial Development Organisation has warned.

In October last year, the IMF forecast 5.3 per cent growth, but the combination of turmoil in world markets and adverse weather has seen estimates fall to under 2 per cent.

Although the continent's low share of world trade and financial illiquidity has shielded it in the short term, falling commodity prices and reductions in overseas development assistance are "a cause for deep concern for African economies", said a Unido report.

The IMF forecasts sub-Saharan African exports will decline by 2.7 per cent in 1998, following virtual stagnation last year. If Asian exports of directly competitive products like wood, rubber and palm oil begin to pick up, benefiting from currency drops of about 30 per cent, competition could increase.

Following Asia's \$125bn bail-out, official development assistance could also plummet. The IMF estimates that official flows to Africa will drop from \$8.4bn in 1997 to \$4.4bn this year, while net foreign direct investment and net portfolio investment will fall from \$10.3bn to \$7.7bn in the same period. **Mark Turner, Nairobi**

LESOTHO

Organised resistance fades

A measure of calm returned to the burned-out capital of Lesotho yesterday as South African and Botswana troops maintained a close watch on the lawless streets.

Bands of looters still roamed the city, but in smaller numbers than on Wednesday, and gunfire was only sporadically heard.

A pall of smoke still hung over the city, which was engulfed by chaos on Tuesday when Pretoria poured troops into the tiny, mountainous kingdom at the request of Prime Minister Pakalitha Mosisili to quell what he called an army mutiny.

The commander of the joint intervention force said organised military resistance had faded, but that his troops were still under sniper fire from rebel soldiers who had retreated to the hills surrounding Maseru.

At least 66 people were killed in fighting, with the South African army counting eight dead. **Reuters, Maseru**

TERRORISM IN ISRAEL

Bomb explodes near university

A bomb exploded close to the Hebrew University in Jerusalem yesterday, the third in Israel in as many months with no organisation claiming responsibility. In all three cases, no one was killed, raising speculation among the security forces that either Hamas, the Islamic resistance movement, had changed its tactics away from suicide bomb attacks, or that the incidents were the work of unknown groups.
Judy Dempsey, Jerusalem

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MONETARY POLICY REVISIONS TO NATIONAL ACCOUNTS SHOW CURRENT UPSWING STRONGER THAN EXPECTED

Bank may be deterred from rate cut

By Robert Chote, Economics Editor

The Bank of England, UK central bank, may be more reluctant to cut interest rates following revisions to Britain's national accounts yesterday showing that the current economic upswing has been stronger than it looked while the last recession was shallower.

The Treasury estimates that the output of the economy may be nearly 1 per cent above the level consistent with stable inflation. Previously it put this "output gap" at about 0.5 per cent.

Gordon Brown, the chancellor of the exchequer, has long warned that the economy faced a "necessary slowdown". Yesterday's figures suggest that it will need to be sharper than previously expected.

But the level of output consistent with stable inflation is highly uncertain. This suggests the Bank may well feel the revision is too small to justify higher interest rates – especially given the international environment.

The short-sterling futures market concluded yesterday that the chances of an early interest rate cut had improved, but this owed much to growing expectations of a US rate cut.

The Office for National Statistics still believes that the UK economy was growing at around its long-run trend rate between the first and second quarters, but following stronger growth in each of the last eight years than it originally estimated.

Manufacturing looks healthier than it did with output 0.7 per cent up on a year ago, compared to previous estimates of a small fall.

But the latest survey from the Confederation of British Industry, Britain's largest employer's lobby, showed export order books at a 15-year low, suggesting pain may simply be postponed.

Consumer spending appears to have slowed more sharply in recent months than earlier data suggested.

The current account of the balance of payments has also been much stronger and is still in surplus.

However, the UK's net overseas asset position is now thought to have been in the red for two years.

Statisticians now calculate that the economy has grown 20.1 per cent since spring 1992, which marked the end of a two-year recession in which it shrank 2.8 per cent.

They had thought that output had grown 18.6 per cent, after a recession of 3.6 per cent.

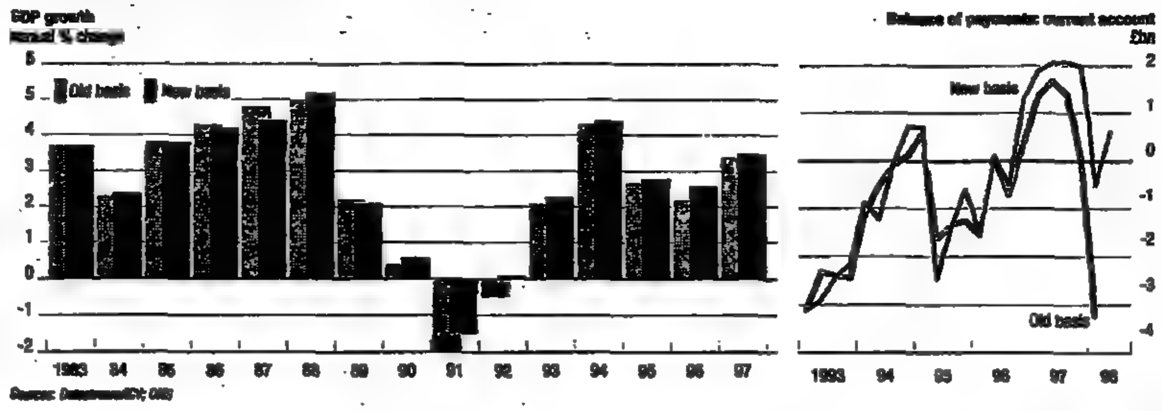
Economic growth looks stronger in part because investment growth has been revised up substantially – more than threefold in 1996 alone.

But business investment fell 2.7 per cent in the second quarter, following five consecutive increases.

The revisions reflect European accounting standards, the use of 1995 prices to weight different parts of the economy, better business surveys, direct measurement of public sector productivity and a broader definition of investment.

New accounting system redefines the humble cow

European rules introduced yesterday bring the UK into line with the rest of the world. **Richard Adams** examines the changes



Source: Datastream/ICV; ONS

When is a cow not a cow? When it is included in the new system of national accounts introduced yesterday. It marks the biggest change in the way the UK economy is measured for more than 35 years.

Yesterday saw the publication of the latest Blue Book of national accounts and the Pink Book of balance of payments. The ONS normally uses these volumes to revise previous estimates of economic activity, incorporating new information and ironing out statistical problems. But substantive changes have been announced this year.

Several are far-reaching. Take the humble cow. Under the previous system of accounts it happily chewed cud and produced what the ONS called "inputs" – milk – used to produce other goods such as cheese.

But under the European System of Accounts, which the UK is required to adopt by the European Union, cows become "cultivated assets yielding repeat products", and are counted under capital investment rather than intermediate inputs. Spending on computer software and mineral exploration are also reclassified as capital formation rather than inputs. This boosts estimates of investment and gross domestic product.

One of the changes introduced yesterday means that the output of parts of the public sector will be measured directly rather than by using inputs, such as employment or procurement, as a proxy. In education quality-adjusted pupil numbers will be used to measure output rather than a head count of teachers.

One odd result will be that during a recession, when unemployment rises, the social welfare areas of the government will probably become more productive as they deal with more people.

Another change is to the headline definition of gross domestic product, the figure most commonly used to measure economic growth. Out goes the measurement of GDP at factor cost, which excludes indirect taxes and government subsidies. In comes GDP at market prices, which includes them, bringing the UK into line with the rest of the world.

In addition, "stockbuilding" is relabelled as inventories, while "consumers' expenditure" is split into two categories: household final consumption expenditure and final consumption of non-profit institutions serving households.

The introduction of the new system coincides with the regular "rebasing" of the national accounts. Measures of "real" activity for the past three years will now be calculated using 1995 rather than 1990 prices.

The rebasing reduces estimated economic growth rates over the period. Consumers tend to spend more on goods and services that are becoming relatively cheap and less on those that are becoming more expensive. Rebasing reduces the weight given in the national accounts to parts of the economy for which prices are rising relatively slowly – and in which output as a result is rising quickly.

Estimates of gross national product will also be reduced because the treatment of value-added tax revenue paid to the European Union will change.

Elsewhere, the ONS has widened the scope of its survey data used in compiling the accounts.

It will now use the Inter-Departmental Business Register, which covers 98 per cent of UK economic activity and improves the consistency of the accounts.

The various changes mean that the big computer models of the economy, like those used at the Treasury and Bank of England, the UK central bank, will also need extensive revision to deal with the new figures.

Trade deficit forecasts look set to be scaled back

Forecasts for the UK's trade deficit this year and next look set to be scaled back by billions of pounds after it emerged that exporters have performed far better recently than previously thought, **Richard Adams** writes. The ONS's new accounting methods have uncovered exports of services by companies outside the service sector, such as production sector companies, that it had not previously recorded. The 1997 Pink Book, the detailed breakdown of the UK's external position, added around £1bn ($1.6bn) to £1.5bn to last year's trade in services surplus. The higher services figure helped the revised overall surplus for 1997 double from previous estimates of £4.5bn to £8.3bn, which the ONS said was the highest ever recorded in cash terms.

The Pink Book also unearthed extra exports of manufactured goods. The latest current account figures for the second quarter of this year – also published yesterday – continued the buoyant news. The current account – which includes income from invisible earnings – was in surplus by £600m during April to June.

NEWS DIGEST

MIDDLE EAST

FBI intelligence 'led to arrest of terror suspects'

Foreign-based intelligence that the UK is being used by terrorists plotting further attacks against US targets around the world is thought to have been behind the arrest of seven middle-eastern suspects in London on Wednesday. Information is thought to have been provided by the Egyptian government and the FBI. The suspects had been linked to Islamic terrorist groups closely associated with Osama bin Laden, the Afghanistan-based Saudi fundamentalist US authorities believe plotted last month's bomb attacks in Tanzania and Kenya. The Al-Muhajiroun group in London, which vocally supports Mr bin Laden, yesterday claimed that six of the detainees were Egyptian and the seventh a Saudi who has arranged media interviews with bin Laden. Islamist activists said that the arrests may have been prompted by the recent decision of the Saudi suspect to leave Britain. The suspect is thought to have informed the Home Office a week ago of his plans to leave the country, having failed to obtain asylum.

Lord Avebury, of the opposition Liberal Democrats, said yesterday he feared the UK government was clamping down on exiles and asylum seekers in order to appease Middle Eastern governments with which it trades and shares strategic interests. **Jimmy Burns and Roula Khalaf, London**

SATELLITE TV

BSkyB warned on screen guide

British Sky Broadcasting, the satellite television company, has been told by Oftel, the telecommunications watchdog, that its on-screen guide to its 140-channel digital network may breach European law. The warning comes a week before the launch of BSkyB's digital service, which is accessed via an electronic programme guide. Oftel said there were "some concerns". One is that although a BSkyB logo appears prominently on its guide, other broadcasters whose channels are carried by BSkyB – such as the BBC – are not allowed to display their own logos. One of those broadcasters said yesterday: "Either all broadcasters should be able to have logos displayed with equal prominence or none should. Unlike some electronic programme guide owners in the US, BSkyB both operates the satellite platform and owns its own content. Competitors believe the broadcaster could favour its own channels. **Cathy Newman, London**

RAILWAYS

$117m train order for Adtranz

Connex Rail, the privatised train operator that runs commuter and longer-distance services in south London and south-eastern England, has ordered 25 trains costing £70m ($117.6m) from Adtranz, the international rolling stock manufacturer. The new trains will come into service in time for winter 2000. The order will consist of 15 four-coach trains and 10 three-coach trains. Adtranz will build the trains at its works in the English midlands and maintain them at a depot near Ashford in south-east England. Connex will pay for the trains itself but will arrange a sale and leaseback with one of the train leasing companies. **Charles Batchelor, London**

THE PROPERTY MARKET

COMPETITION MINISTER IGNORES ADVICE AND CLEARS SALE ON CONDITION POWERGEN SELLS COAL-FIRED PLANTS

Generator allowed to buy electricity group

By Andrew Taylor and David Wighton

The government yesterday ignored the advice of the competition authorities and allowed PowerGen, Britain's second-biggest fossil fuel generator, to buy East Midlands Electricity for £1.9bn ($3.1bn) on condition it disposes of two large coal-fired power stations.

Peter Mandelson, the trade and industry secretary, overruled the Office of Fair Trading, which recommended the bid be referred to the Monopolies and Mergers Commission, and the electricity regulator, who called for bigger disposals by PowerGen. An MMC investigation would have delayed the disposals and the signing of long-term coal contracts by the generators which the government believes will safeguard thousands of mining jobs.

The move is expected to spur further consolidation in the domestic power sector as well as opening the door to increased purchases of British coal by generators.

Mr Mandelson said that he agreed with the director-general of fair trading that the bid raised "significant competition issues", but had decided to allow the purchase to proceed provided PowerGen sold 4,000MW of its 13,628MW coal and gas fired capacity. He said there was "no question of simply waving the merger through".

PowerGen yesterday welcomed the government's decision and appointed Goldman Sachs to oversee the sales. Its shares fell from 892p to 888p. Mr Mandelson is due next month to publish his response to government proposals calling for the sale of under-used coal plant and restrictions on construction of gas-fired power stations to protect coal sales while new electricity wholesale pricing arrangements were introduced.

Competition experts said it was ironic that Mr Mandelson had ignored the OFT's advice in his first important merger decision, given that the government was looking at reducing political involvement in merger control.

PowerGen previously had offered to sell just one 2,000MW power station in return for being allowed to buy East Midlands.

Analysts said Ferrybridge in northern England was likely to be one of the power stations sold. They expected the disposals to raise about £900m.

Energy groups that have expressed interest in buying coal-fired power stations include Centrica, which trades as British Gas, British Energy, the nuclear power generator, Enron the big US energy group and RJB, the UK coal group.

As a further safeguard, Mr Mandelson has asked PowerGen to ringfence its generation, distribution and supply businesses under separate managements.

See Lex

Royal Automobile Club deal is referred to watchdog

The future of the Royal Automobile Club, Britain's oldest motoring organisation, was plunged into renewed uncertainty yesterday after the £450m ($756m) bid from Cendant of the US was referred to the Monopolies and Mergers Commission, Charles Batchelor writes.

The 12,000 members of the RAC's Pall Mall club will have to wait until early next year before hearing whether they will each receive the £33,000-£35,000 payout that will result from the sale.

Cendant, a US marketing group, announced its intention to bid for the RAC's motoring services arm in April, a week after completing the purchase of the rival Green Flag breakdown business. It led to an acrimonious battle between the club's members, with those living overseas objecting to being excluded from the payout. The MMC has until December 23 to report.

Liberal Democrat leader warns Blair

By George Parker, in Brighton

Paddy Ashdown, the leader of the Liberal Democrats, the opposition party, yesterday urged Tony Blair, the prime minister, to abandon his "control freak" tendencies and move swiftly to introduce electoral reform and a freedom of information bill.

Mr Ashdown, in a closing speech to a fractious party conference, said relations between the Liberal Democrats and the governing Labour party would suffer if Mr Blair dragged his feet.

Mr Ashdown also launched a strong attack on a supposed authoritarian streak in the European Union, including its determination to stamp out Imperial measurements and its handling of the growing crisis in Kosovo.

But he went out of his way to praise Mr Blair's achievements and gave his party another nudge towards a Lib-Lab coalition.

"If we stay players on the field, not spectators from the sidelines, then we shall be at the centre of one of the greatest periods of reform our nation has ever seen," he said.

Mr Ashdown remains confident that Mr Blair will honour his pledge to hold a referendum on electoral reform during this parliament and that the government will campaign for a proportional voting system.

But he is concerned that sceptics in the cabinet are determined to dilute and delay a freedom of information bill. "It should be published without delay and it ought to be enacted in next year's session," he said.

Mr Ashdown, who has faced criticism for working too closely with Labour, claimed he had yet to be convinced that Mr Blair was a genuine reformer who wanted to share power.

"Are you a pluralist or are you a control freak?" he asked. "Your language tells me you're the first, but so many of your government's actions tell me you're the second."

Mr Ashdown has been irritated by the determination of many delegates this week to frustrate his policy reforms, intended to stake out territory in the "radical centre". He feels the party would face electoral disaster if it moved to the left.

Mr Ashdown said that by acting as a "candid friend" of the EU, the party would have more influence in persuading the public of the advantages of early entry to the single currency.

Referring to EU inaction on Kosovo, he said: "There is something ludicrously wrong with a European Union which can bring the full weight of the law down on a greengrocer who tries to help his customers, yet sits helplessly by while its continent erupts in bloodshed."

Mr Ashdown had hoped to travel to Kosovo today but was refused a visa.

Staying put: Paddy Ashdown said he would not step down Reuters

PCs 'cost 25% more' in Britain than in Germany

By Paul Taylor and Peggy Hollinger

Home personal computer buyers in Britain are paying too much for their machines because UK retailers demand higher margins than their continental European counterparts, computer industry executives claimed.

Executives from manufacturers including Compaq Computer, the world's biggest PC maker, and Fujitsu, the Japanese group that has been building its business in Europe, say retail consumer prices in Britain are significantly higher than in Germany, the biggest PC market in Europe, and France.

"There is still about a 25 per cent price differential between the high street [retailers] in the UK and those in Germany or France," said Bryan Taylor, in charge of Fujitsu's PC marketing in Europe.

Toon Bouten, vice president in charge of Compaq's European consumer PC business said: "The markets in Germany and France are much more price sensitive and margins are lower."

He suggests that this partly reflects the fierce competition between the big electrical retail chains in Germany, where Compaq has just launched a low-cost consumer PC for DM1,699 ($1,005) to be sold by the country's eight big chains.

The retail market in the UK, where most consumer PCs cost around £1,000 ($1,680) is dominated by the Dixons group.

John Clare, Dixons' chief executive, rejected the PC manufacturers' claims. He said gross margins in PC sales were "wafer thin".

He added that when Fujitsu first claimed PCs were cheaper in Germany, Dixons asked to be supplied with the product at the same price given to German retailers. "They would not, could not and did not," he said.

London Fashion Week has designs on success despite the gloom

UK designers hope the buyers will return even though rumblings of recession make a dark backdrop. **Alice Rawsthorn** reports

At this time last year 2,600 store buyers and fashion journalists gathered in London for Fashion Week. The UK's designers are waiting anxiously to see if they come back today, for this season's shows.

A strong pound, Asia's economic instability and fears of a UK recession are hardly an encouraging picture for the 40 or so designers who will unveil their spring collections over the next five days.

But despite this gloomy backdrop, the British Fashion Council, which organises the event, is hopeful attendance – and orders – will match last year's. "We're not leaping up and down saying it's going to be the best season ever, but judging from the level of interest from press and buyers, people are coming," says Simon Ward, the council's director.

Until recently international buyers and journalists regarded London as far less important than Paris, Milan or New York. They came to London when an exciting crop of designers emerged, only to disappear again if their talent waned or they encountered financial problems. London was seen, at best, as a source of iconoclastic, young designers who staged headline-hitting shows. But even the most talented were criticised for being uncommercial and burdened with bad reputations for quality and reliability.

The latest London fashion revival appears to be more durable. Attendance has risen steadily for several successive seasons, with the number of press and buyers up from 1,783 in September 1996 to 2,637 in September last year.

Recent research by the Department of Trade and Industry suggests the UK's fashion designers have more than trebled their turnover since 1990, to £600m ($990m) last year. The rate of growth has accelerated recently.

The success of Paul Smith, whose business now musters annualised sales of £165m, has proved that British designers can achieve long-term success in the global marketplace.

A number of prominent overseas fashion houses have hired Britons as chief designers. Some of them no longer show in London, notably John Galliano at Christian Dior and Stella McCartney at Chloé; but others continue to do so, including Alexander McQueen and Hussein Chalayan, creative directors of Givenchy and TSE respectively.

Saks 5th Avenue, one of the more conservative US retailers, is staging a British design promotion, featuring Elspeth Gibson, Christa Davis and Julien Macdonald, at its Manhattan flagship store.

Several designers have also improved production quality and provide a more efficient service, according to Susanne Tide Frater, head of fashion direction at Selfridges.

"What the London fashion scene needs is to build more solid brands, more Paul Smiths," she says. "And a couple of the younger designers look as though they'll do that."

Lotus.

98

Lotus Euro Beacon Award

Distinction Awards

Greatest Business Impact
Kasten Consulting GmbH, Germany.

Rising Star Award
IT Factory A/S, Denmark.

Regional Awards

Northern Region
Byelex Workgroup Technologies, Netherlands.

Central Region
[illegible]

Western Region
Aspyware, France.

Southern Region
Quattroemme, Italy.

UK, South Africa and Eire
The Computer [illegible] Centre Ltd., UK.

Service Awards

Best Customer Service
[illegible], Eire.

Excellence in Partnering
CRS Computers, UK & Emerging Technology Solutions, USA.

Excellence in Education and Training
[illegible] Ltd., UK.

Solution Awards

Best Industry Solution
INFOservice, Italy.

Best Web Business Solution
Hugvit hf, Iceland.

Best Messaging Solution
[illegible] A/S, Denmark.

Best Tool and Utility Solution
Iconus S.P.A., Spain.

Congratulations to the recipients of the 1998 Lotus Euro Beacon Awards. The real WINNERS can be found on page 32.

We'd like to congratulate the 15 companies listed above, winners of this year's Lotus Euro Beacon Awards. In the words of the judges, these companies *"contributed to the success of their customers by providing expertise along with quality products, solutions and services."* But the real winners are the countless companies who rely on our Business Partners to help them work more effectively (to see just how effectively, check out the FT's shares pages). Whether it's developing websites or connecting offices with Lotus Domino or Lotus Notes, the 19,500 Business Partners worldwide make a winning team. And, of course, Lotus' own success also depends on the innovative IT solutions implemented by these Business Partners. All of whom help make the Lotus Euro Beacon Awards the only competition where there are more winners than entrants. For more information, please visit our website: **www.lotus.com**

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MANAGEMENT

A zappy man: Allan Leighton believes in boosting Asda's employees with plenty of praise — Tom Stoddart

BUSINESS LUNCH ALLAN LEIGHTON

The boss who calls his workers 'colleagues'

Happy-clappy jargon, gimmicks. . . but **Lucy Kellaway** found there is nothing phoney about the energetic chief executive of Asda

If you saw a tall man with cropped hair and beard running through Regent's Park on Thursday last, it was probably Allan Leighton. If you had waved he would not have waved back. His body might have been engaged in its daily 38-minute, five-mile run, but his mind was deep in groceries.

Later that day the chief executive of Asda and I were due to meet for a business lunch. Or rather, we were due to meet for a business mineral water. Mr Leighton does not do lunch: he doesn't waste time and he doesn't seem to eat either.

At 2.30pm sharp I arrived at the hotel near the park where he stays when he is in London. Finding him was not easy. Normally he wears a badge on his tie saying "Allan – happy to help" but that day he did not have it on. Eventually a tall man in shirtsleeves came up from behind and put his hand on my shoulder.

"Hi!" he said, very friendly, very casual. He led me to a squashy sofa in a corner of the restaurant and ordered some water. The waiter handed him a sandwich menu but instead of looking at it he started to talk about Asda. About how he would have loved to have shown me round the Leeds headquarters, or round one of the stores; about how important it was to talk to colleagues (as Asda's 80,000 staff are known); and about what fun it all was.

What a shame, he said, that we were sitting there when we could have been at one of his "Lunch 'n' Learn" sessions at Asda, when a few colleagues get together for a bite and learn something about the business at the same time.

The waiter hovered. Although he had had no lunch, Mr Leighton seemed in no hurry. "Gimme five minutes," he said in a laddy kind of way, holding up five large fingers.

I had had my doubts about Asda. About its colleagues. About its Lunch 'n' Learn. About the gimmicks and the phoniness of it all. But already I could see there was nothing phoney about Mr Leighton. The egalitarian bit comes easily to him. Still, he *is* the boss and they *are* the employees. There is no getting away from that. He winced at the B-word. "I don't see it like that," he said.

I asked about the ultimate colleague, his chairman (and former chief executive) Archie Norman. Archie gets all the credit for the great rebirth of Asda – and has just been named as British business's most admired businessman – whereas no one hears much of Allan Leighton. Apparently that doesn't bother him at all.

"We have a very good relationship," he assured me, twice. "We started out quite different but we've become quite similar." Really? Mr Norman is deputy chairman of the Conservative party, while Mr Leighton has been a Labour man all his life. Archie is a posh little Oxbridge chap, Allan a big polytechnic man.

Is it true, I asked, that Archie is the brain, the strategy man, and he the heart, the motivator?

"Not at all," he said shortly. "We both do everything."

Mr Leighton certainly does do a great deal. In the early days he was at it 18 or 19 hours a day, or so he claims. Dreadful for your family, I said. "Well, they have to be part of the same thing," he said, mysteriously.

Part of Asda? "No," he said. "They are the Leightons." This sounded somewhat obvious, but he explained that they were an ordinary family with a sense of balance. "My lifestyle hasn't changed at all," he went on. Having money doesn't matter to him. He never spends it. "Everything I am wearing is from George [Asda's own range]." I looked at his tight pinstripe drainpipes. Even the trousers? "No, because we don't do suits. But my shirt, tie, belt, pants."

He says he can make time for what matters. One such thing is helping children to read. He told me about a scheme in which he and his colleagues will each spend an hour a week in neighbouring schools. Isn't it arrogant to think he can do in an hour what the schools are failing to do? "I'm *never* arrogant," he said.

Despite the happy-clappy jargon, what Mr Leighton is really about is simplifying management. Boiling it down to the basics. "It's people in shops buying products."

Part of the Asda creed is that work is fun. But it's not fun, I protested, if you are stacking shelves. It's boring.

He looked at me shrewdly. "They warned me about you," he said, and then told me stacking *could* be made enjoyable. He spends four hours a month poring over the regular surveys of colleagues' enjoyment levels. And does he enjoy it himself? He does, except when he discovers that colleagues are needlessly having a bad time.

Despite the jargon, what Mr Leighton is really about is simplifying management

And on those days, does he go home and kick the dog? "No," said Mr Leighton. "I take him for a run."

His style is to praise, or as he puts it, to "zap" rather than "sap". "I leave a store and within 10 minutes I send a note saying I really enjoyed it, colleagues in good shape, everything fantastic."

Surely a rocket would sometimes be a better response? He looked at me as if I just did not get it.

"This is not a *soft* business. This is a *hard* business. When people are doing things that are wrong, you've got to let them know. If they don't perform, they are a liability to the organisation." He does fire people, but sees it as his own failure; either he hired the wrong person or failed to train them properly.

One thing that preoccupies him is the fact that women, of whom Asda employs 55,000, are undervalued.

"I couldn't run a house!" He roared with laughter at the very thought. "I can just about iron. But when you think about the shopping, the budget, the bills to pay, the patience of Job with the kids, it's a bloody difficult job. Then they come to work and they are treated like idiots."

Later that day he was giving a speech to the Marketing Society. "I'm nervous as hell," he said. "But if you are not nervous, you are not any good. I don't *ever* do the same thing twice."

He proceeded to try out the speech on me, waving his arms enthusiastically. "It's on managing in crisis-filled times. You look around the world, there isn't a piece of good news. In a couple of places it's really hairy. You've got to change the way you manage the business. Prune as you go. Travel light, travel *fast*. You must think: how can we come out of this even stronger?"

I doubt if there is a single chief executive who is not considering what action to take now in case of a recession. Yet Mr Leighton has a way of making you feel that this is fresh, exciting. Once he famously donned a Gary Glitter suit for a presentation. But listening to him it struck me that he had enough energy to dispense with props altogether.

I changed the subject and asked about his future. He is only 46, and has been chief executive for two years. What next?

"I've never thought about it," he said, and paused as if contemplating for the first time a life without Asda. "There is a real issue there. Yeah. How can you possibly *not* do stuff." If you are Allan Leighton, not very easily at all.

It took a few days to come, but eventually I got my very own Leighton zap. "Dear Lucy," he wrote. "Thanks for your time yesterday. I enjoyed it, which is the acid test."

Acid test? I wondered, and then told myself to stop it. You are meant to bask in a zap, not pick holes in it.

CONTRACTS & TENDERS

BUSINESSES FOR SALE

Calm surface belies the turbulence

As the orchestral season starts, **Andrew Clark** warns that despite appearances to the contrary, the ensembles are not without their worries

What can the LSO be worried about? The question was headlined in the programme book for the opening concert of the London Symphony Orchestra's season at the Barbican on Wednesday; and it could have been echoed by the other three independent London orchestras – the Philharmonia, the London Philharmonic and the Royal Philharmonic.

On the surface, there seems to be *nothing* to worry about. Unlike five or 10 years ago, when the London orchestral scene was beset by crisis, the 1998-99 season has begun in a climate of unprecedented calm. Confidence is growing in what the orchestras have to offer. Managements and personnel are stable, massive strategic battles with the Arts Council are a thing of the past. Marketing is better than ever, and audiences are flocking to concerts. The argument that London has too many orchestras has lost currency. It's the opera companies, not the orchestras, which are feeling the chill.

This benign impression is stoked by the quality of performances over the past week, contradicting the notion that London's musical life slumps after the Proms. The Royal Philharmonic was first off the mark last Thursday with the start of its Mahler cycle at the Royal Albert Hall. There may be no shortage of Mahler performances in London, but there *is* room for a series as decently planned as this. It gives backbone to the RPO's season, and ties up neatly with the orchestra's Berg/Brahms series in the new year. The RPO has long been the laggard of the London independents; now that Daniele Gatti has found his bearings, it seems to be catching up.

The only thing missing at the LPO, which opened its season on Sunday at the Festival Hall, is a figurehead. Having made a series of wrong decisions in the early 1990s, the orchestra has been waiting patiently for the right person to appear: Myung-Whun Chung and Kurt Masur are now in the frame. Meanwhile, its chief executive, Serge Dorny, is providing a solid groundwork.

The Philharmonia, which played to a packed Festival Hall on Tuesday, is the orchestra with the greatest flair – not just in programming, but in the versatile, edge-of-seat quality it brings to music of widely differing styles. After its hugely successful Ligeti, the orchestra is planning a Lindberg series with Esa-Pekka Salonen; Gergiev will be back for a cycle of Berlioz's dramatic works; and the Philharmonia will be the only London orchestra to acknowledge the Poulenc centenary. Best of all is the news that Christoph von Dohnányi has agreed a three-year extension to his contract as principal conductor.

In Berlin, Paris or New York, the musical diet is dictated by a single orchestra. So what can the London orchestras be worried about? As usual, it boils down to money

The LSO has two advantages over its rivals: sole residency at the Barbican and a higher level of subsidy. It also has the highest attendance figures, now averaging 90 per cent. But it's this very sense of security which sometimes gives the LSO's concerts a monolithic, predictable quality. The sound – the nearest a British orchestra comes to the muscular warmth of the Berlin Philharmonic – seems to be the same whatever the composer. Nevertheless, with Stravinsky, Elgar and Shostakovich filling its schedules over the next three months, and a starry line-up of soloists, you would think the LSO had no problems.

Turn to the concert calendars of Berlin, Paris or New York, and you'll find your musical diet being dictated by a single orchestra. So what can the LSO, or the other three independents, be worried about? As usual, it boils down to money. The fuss over London's opera problems has deflected attention from the fact that orchestras, too, have suffered from the failure of subsidy to keep pace with inflation. In what must be the most overt attack by a UK orchestra on the hand that feeds it, the LSO is using its programme book to accuse the government of "lack of commitment to, and investment in, the arts". The orchestras want a share of the increased arts budget recently announced by Chris Smith, the culture secretary; and they want it on a three-year basis, so that they can plan with security.

They need the money all the more because of the strong pound, which has made foreign touring less lucrative. They're also deeply worried by the BBC's decision to buy out its employees' right to separate fees for commercial recordings and television work. The Royal Opera House is hoping to do the same with its orchestra. This will allow record companies to negotiate deals without paying Musicians' Union rates. "You're going to have two massively subsidised orchestras with not much to do," says the RPO's John Manger, "and they're going to be available for work which is our lifeblood."

The independents' only fall-back is the strength of their ties with outstanding artists. Gatti is certainly eliciting the right responses from the RPO: its sylph-like textures captured the unsullied nature-landscape of Mahler's First Symphony, but Gatti spoilt the effect with his elastic tempos and mannered phrasing, giving the music a saccharine quality. The main work in the LPO's concert under Valery Gergiev was Berlioz's *Symphonie fantastique*. Painted in heavy Romantic colours, this was not an interpretation to live with, but its idiosyncracies were far preferable to Sarah Chang's heartless brilliance in the Tchaikovsky Violin Concerto before the interval.

In Kurt Sanderling, spry 86-year-old and last survivor of the German-Jewish musical tradition, the Philharmonia clearly has a soulmate. Their performance of Beethoven's Second Symphony was pure joy – energetic but never driven, organic but wonderfully sustained, warm but not heavy in the German manner. The way Sanderling drew the first movement allegro out of the slow introduction, his relaxed turning of each phrase in the Larghetto and willingness to let the music breathe – all this bespoke a musical legacy we have all but forgotten.

By opening the LSO season with Bruckner's Sixth Symphony, Sir Colin Davis played to his orchestra's tonal strengths. And of all Bruckner symphonies, this is the least cerebral, and therefore best suited to Sir Colin's temperament: in the two central movements, we heard its Mozartian clarity of form, its Schubertian songfulness and warm emotional colouring. But the performance did not add up to a coherent whole, largely because of Sir Colin's galloping tempos in the two outer movements. The great edifices were built too easily, there were no hidden depths. Sir Colin was on safer ground accompanying Radu Lupu in Mozart's Piano Concerto No. 27, which found this undervalued pianist at his artless best.

POP IS THIS DESIRE?

Don't look here for the answer

Is This Desire?, P.J. Harvey's fifth album, is the product of a pop scene more used to promoting appetite than questioning it. But such singularity has characterised Polly Jean Harvey's musical career. Whether producing stubbornly uncommercial music or indulging in wild changes of image, she has constantly sought to defy her audience's expectations.

In this, if nothing else, the contemporary she most resembles is Bjork. Both have achieved success without tailoring their work in sole pursuit of that goal. But whereas Bjork took her cue from dance music, P.J. Harvey has concentrated herself within more traditional, guitar-based parameters. Here she has sparked comparisons with Patti Smith, the 1970s doyenne of the New Wave singer-songwriters: sharing Smith's vocal style and musical intensity, Harvey is not shamed by the likeness.

Harvey's previous album, *To Bring You My Love*, saw her exploring themes and styles that owed much to Nick Cave. Calming the noisy squalls that had battered previous releases, Harvey crafted an updated version of the blues that was always latent within her music.

In the three years since, Harvey has kept busy with collaborations and other projects. It seems apt, nonetheless, that after such a gestation period, her new release should find itself torn between developing the work of its predecessor and deviating from its path entirely.

Is This Desire? presents some of Harvey's most accessible songs so far; but it also explores sonic extremes which, when not seducing the listeners, seem hell-bent on testing them.

Songs that hark back to *To Bring You My Love* soothe that album's more abrasive edges. The acoustic guitar predominates as much as its electric sibling; organ and piano are pushed to greater prominence. Rhythmic and harmonic, songs such as "Is This Desire?" and "The River" are as beguiling as any Harvey has recorded.

Yet other songs allow no such familiar listening. Guitars are distorted out of shape ("My Beautiful Leah"); elements of jazz creep in ("The Garden"). "Joy" is the most extreme example: a cacophonous, clanking discordance over which Harvey bellows almost parodically dour lyrics, this is a song that teeters on the edge of the unlistenable.

Generally, though, the effect is more discomfiting than discouraging. The musical inconsistency is also given some grounding by a lyrical viewpoint that never stands still. Although a cast of women people these songs ("Angeline", "A Perfect Day Elise", "Catherine"), Harvey's focus slides constantly between desirer and desired, first and third person, female and male.

Is This Desire? does not provide any answers to its self-posed question. The album does however reaffirm P.J. Harvey as one of the more challenging and bemusing presences in contemporary pop music. *Is This Desire?* may not leave listeners wholly satisfied, but it should leave them wanting more.

Ludovic Hunter-Tilney

Another storm in a teacup

THEATRE

IAN SHUTTLEWORTH

Une Tempête
Gate Theatre, London W11

Sequels, prequels, rewrites of every shape and kind . . . *The Tempest* has fascinated artists for nearly four centuries, from John Dryden to the creators of the 1950s science-fiction movie *Forbidden Planet*. Much of this is glorified introspection, since Prospero's magic is, if not a deliberate then a marvellously convenient metaphor for the process of artistic creation itself. But he is also a colonist, and this is the aspect which concerns Aimé Césaire in his 1969 version *Une Tempête*.

It is "an adaptation for a black theatre" in terms of focus rather than casting. Director Mick Gordon follows the play's line of reasoning by casting black actors only as Caliban and Ariel – the one (Andrew Dennis) defiantly using "Uhuru" as a greeting and rejecting the name given him by his slavemaster with a "Jus' call me X", the other (Michael Wildman) attempting to retain his principles while collaborating, but scorned both by Prospero for his "moral anguish" and by Caliban for his "Uncle Tom patience".

This version of 'The Tempest' adds nothing to the Bard: Michael Hadley and Michael Wildman

Alastair Muir

All of which is very well, but with the exception of two scenes – a passionate exchange between Caliban and Ariel over their differing strategies to gain freedom, and a refashioned ending in which Caliban goads the arrogantly imperialist Prospero into remaining on the island – Césaire's version contains nothing of substance which could not have been brought out of Shakespeare's version by a skilful, aware director intent on treading that particular path. Césaire has constructed a tub of his own to thump when the original resounds perfectly well if struck in the right way.

Philip Crispin renders Caliban and Ariel into varying intensities of West Indian patois, although at times he overdoes it. Dick Bird's design of false proscenia, pulleys and screens emphasises the artificiality of the island regime, but constitutes a reversion to the more usual interpretation of Prospero as illusionist-creator rather than "downpressor".

Gordon's production bowls along nicely most of the time – with Kelly Marcel, for instance, a simpering caricature of a Miranda and Mike Hayley as bombastic a Stefano as he was a Captain Firebrand in *The Basset Table* at Bristol and Kilburn a few months ago – but comes unstuck with Prospero himself. Granted, Césaire was not especially concerned with fleshing out the role, but surely more could be found for Michael Hadley to do during Caliban's tirades than stand there in complacently smiling acknowledgement.

The sesquicentenary of the abolition of slavery in French colonies can surely be marked more trenchantly than this.

The Restoration meets Henry James

THEATRE

ALASTAIR MACAULAY

The Contrast
Cochrane Theatre, London WC1

There is a reason why America's first comedy, Royall Tyler's *The Contrast* (1790), has waited over 200 years to receive its first British performance. Its language is weighty, most of its sentences trailing multiple subordinate clauses of intensely educated refinement – a halfway house between Restoration comedy and the novels of Henry James; while its plot is balsa-light, a wisp of why-should-she-be-marrying-him-and-not-him froth. It takes an exceptionally fine ear to turn this imbalance of style and content into an expressive tension.

Melanie Wynyard almost brings it off. Directing this British premiere for a new theatre company, Upstart Crow, she has elicited from all her actors several rare and welcome virtues. Comedy and character are never imposed externally onto the play; they emerge from within. The actors all know how to take a position, stand (or sit) still, to gesture economically but surely, and to speak with aplomb and relaxation.

Best of all, they all listen to each other and react with absolute focus. Nothing is finer than a scene in which the three leading women and "the odious Dimple" (engaged to one of them, in pursuit of the other two) all listen to a speech about America delivered by Manly (in love with the already engaged girl, brother to one of the other girls). The speech itself is worthy stuff, absolutely right for this character and interesting because of its expression of the American ideal, but nonetheless nothing exceptional. But each of the four other people listen to it in a different way, quietly but truly. And so the situation becomes very engaging; the wafer-thin confectionery of the plot becomes very sweet.

The Contrast is not uproariously funny, and many another director would have either tampered with its text or squirted on extraneous comic "business". Because Wynyard eschews all that, a real delicacy of sentiment – so true to the period and to the young American spirit – emerges. In one scene, Maria (Nicola Kingston) listens to the amorous protestations of her beloved Manly (Roger Barclay), explains to him that she has been betrothed by her father to the dreadful Dimple, and bears Manley declare his firm respect for all parental decisions. This could be sheer cardboard; here it is the most touching scene in the play. Likewise a scene in which the maid Jenny (Jean Stanley) listens with polite embarrassment and suppressed boredom to the yokel Jonathan heartily sing verses of "Yankee doodle" (Andrew Callaway) is played with such lack of vulgarity (on both parts) and such good manners on Jenny/Stanley's part that this potentially stock scene becomes delectable.

Still, *The Contrast* is uphill work for the audience for too much of its duration. The first half is almost all exposition and satire; and the length and polish of those sentences requires a greater rhetorical flair than some of these actors possess. As the chatterbox Charlotte (a very hard part), Barbara King simply needs more vocal punch and yet sharper consonants; and Tim Seely is often inaudible as Maria's father. Kate Terence almost tips into camp vulgarity in Act Two, but an audience relishes her sheer panache. Barclay as Manly and Kingston as Maria capture the demure virtues of the lovers well; and Jean Stanley makes her small role a large one by her sheer imaginative absorption.

In an ideal world, *The Contrast* would be introduced to Britain by nothing less than a top-notch team of actors; and Wynyard and her Upstart Crow team would be tackling a play that more gratefully transcends it original milieu and era.

INTERNATIONAL Arts Guide

AMSTERDAM

DANCE
Het Muziektheater
Tel: 31-20-551 8911
Nederlands Dans Theater I: triple bill comprising Sinfonietta by Jiří Kylián, Grass by Mats Ek, and Start to finish by Paul Lightfoot; Sep 25, 26

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Götterdämmerung: by Wagner. New staging by Pierre Audi, conducted by Hartmut Haenchen; Sep 27, 30

BIRMINGHAM

CONCERTS
Symphony Hall
Tel: 44-121-212 3333
City of Birmingham Symphony Orchestra: conducted by Sakari Oramo in works by Schubert, Mozart and Strauss; Sep 29, 30

BONN

EXHIBITION
Kunst- und Ausstellungshalle der Bundesrepublik Deutschland
Tel: 49-228-917 1200
www.kah-bonn.de
Great Collections: the latest in this series of exhibitions is devoted to the Musée du Petit Palais in Paris. Concentrating on the museum's holdings of 19th century French art, the show comprises nearly 200 works and ranges across painting, drawing and sculpture; to Sep 27

BOSTON

EXHIBITION
Museum of Fine Arts
Tel: 1-617-267 9300
Monet in the 20th Century: more than 80 works painted by the artist in the last decades of his life; to Dec 27

BUDAPEST

EXHIBITION
Museum of Applied Arts
Tel: 36-1-217 5222
Zsolnay: Art Nouveau Ceramics. Display of 200 objects made between 1897 and 1918 at the family-owned Zsolnay factory in Pécs. Includes goblets, vases and other objects; to Sep 27

CHICAGO

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
La Gioconda: by Ponchielli. Conducted by Bruno Bartoletti in a staging by John Copley. The title role is sung by Jane Eaglen; Sep 26

FRANKFURT

CONCERT
Alte Oper
Tel: 49-69-134 0400
Radio Symphony Orchestra Frankfurt: conducted by Hugh Wolff in Beethoven's Missa solemnis; Sep 30

OPERA
Oper Frankfurt
Tel: 49-69-21237 999
www.frankfurt-business.de/oper
● La Périchole: by Offenbach. Conducted by Catherine Rückwardt in a staging by Peter Eschberg, with designs by Peter Pabst; Sep 26
● La Traviata: by Verdi, in a staging by Axel Corti; Sep 25, 27

LISBON

OPERA
Expo '98
Tel: 35-11-831 9500
O Corvo Branco: world premiere of a new opera by Philip Glass, with a libretto by Luísa Costa Gomes. The production, which will mark the end of the Expo arts programme, is directed by Robert Wilson, and is a co-production with the Grand Théâtre de Genève; Jules Vernes Auditorium; Sep 28, 29

LONDON

CONCERT
Royal Festival Hall
Tel: 44-171-960 4242
Philharmonia Orchestra: conducted by Kurt Sanderling in works by Brahms, Beethoven and Shostakovich. With piano soloist András Schiff; Sep 26

EXHIBITION
National Gallery
Tel: 44-171-839 3321
Mirror Image: Jonathan Miller on Reflection. Show exploring the representation of mirrors in art, curated by Miller and featuring loans from public and private collections. Includes Van Eyck's famous Arnolfini Portrait, and works by Freud, Caillebotte and George Romney; to Dec 13

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
Otello: by Verdi. New production by David Freeman, designed by Tom Phillips and conducted by Paul Daniel/Mark Shanahan. David Rendall sings the title role; Sep 25, 30

LOS ANGELES

OPERA
L. A. Opera, Dorothy Chandler Pavilion
Tel: 1-213-972 8001
www.laopera.org
● Carmen: by Bizet. Washington Opera production by Ann-Margret Pettersson, designed by Lennart Mörk. The conductor is Bertrand de Billy and the title role is sung by Jennifer Larmore; Sep 25
● Werther: by Massenet. Conducted by Emmanuel Joel in a co-production with Théâtre du Capitole Toulouse staged by Nicolas Joël and designed by Hubert Monloup. The title role is sung by Ramón Vargas; Sep 26

MANCHESTER

CONCERTS
Bridgewater Hall
Tel: 44-161-907 9000
● BBC Philharmonic: conducted by Sir Charles Mackerras in a programme of works by Beethoven. With soloists including bass Willard White; Sep 26
● Hallé Orchestra: conducted by Owain Arwel Hughes in works by Dvořák, Mussorgsky/Ravel and Sibelius; Sep 27

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Munich Philharmonic Orchestra: conducted by Simone Young in works by Janáček, Martinu and Dvořák; Sep 30
● Symphonieorchester des Bayerischen Rundfunks: conducted by Yuri Ahronovitch in works by Weber, Mendelssohn and Mussorgsky. With piano soloists Anthony and Joseph Paratore; Sep 25, 26

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
New York Philharmonic: Kurt Masur conducts Beethoven – The Complete Symphonic Cycle. Programme III (Sep 25). Programme IV (Sep 26, 28)

EXHIBITION
Pierpont Morgan Library
Tel: 1-212-685 0008
Master Drawings from The State Hermitage Museum, St. Petersburg, and The Pushkin State Museum of Fine Arts, Moscow. 120 European drawings dating from the 15th to the 20th centuries, some of which have never before been exhibited outside Russia. Includes works by Rembrandt and Dürer; from Sep 25 to Jan 8

OPERA
Metropolitan Opera
Tel: 1-212-362 6000
www.metopera.org
Samson et Dalila: by Saint-Saëns. New staging by Elijah Moshinsky, with sets and costumes by Richard Hudson. For the season's opening night performance, James Levine conducts and the cast includes Plácido Domingo and Olga Borodina; Sep 28

PARIS

DANCE
Théâtre des Champs Elysées
Tel: 33-1-49525050
Cuban National Ballet: Swan Lake, in a staging by Alicia Alonso; Sep 25, 26, 27, 28, 29

TOKYO

CONCERT
Suntory Hall
Tel: 81-3-3584 9999
Minnesota Orchestra: conducted by Eiji Oue in works by Mozart and Mahler; Sep 25

ZURICH

EXHIBITION
Kunsthaus Zurich
Tel: 41-1-251 6765
Max Beckmann and Paris: more than 100 masterpieces of modern art from public and private collections around the world. Works by Beckmann are shown alongside paintings by Matisse, Picasso, Braque, Léger and Rouault; from Sep 25 to Jan 3

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

PHILIP STEPHENS

Down to raw politics

Forget about the constitutional proprieties. The real battle over Bill Clinton's behaviour will take place in the electoral arena

We have moved beyond sex and lies in the matter of Bill Clinton's presidency. We can discount too the grandiloquent talk on Capitol Hill about honouring the constitution and upholding the integrity of the American Republic. Raw political calculation will decide Mr Clinton's future.

This is territory on which the president knows how to fight. He intends to. The Starr report could yet imperil his presidency, but there has been a palpable change of mood. As Washington sobers up after the intoxication of the past two weeks, it is becoming clear that the road to impeachment also holds perils for the Republicans. There are more indignities to come, but the darkest days look to be over. The end-game now is about setting the price for his remaining tenure at the White House.

There is a caveat here. It is one that even the president's close allies feel obliged to insert in any discussion about his future. Mr Clinton's survival in office can be predicated only on the assumption that there are no more Monicas in the presidential closet. Mr Clinton has assured Tom Daschle, the Democrat leader in the Senate, that there are not. A second lie would spell destruction.

Let's assume, though, that this time Mr Clinton is telling the truth. As the days pass the proposition that the most powerful nation on earth could sacrifice its leader to lies about his sex life becomes ever more eccentric.

The heavily-loaded and lurid report produced by Kenneth Starr, the independent counsel, and the thousands of pages of supporting evidence throws up grounds for only one article of impeachment. The charge is that Mr Clinton lied as to precisely where, and to what end, he and Ms Lewinsky touched each other in the small hallway which runs off the Oval Office. The American people, saner than their elected representatives, have already decided that hair-splitting about the definition of heavy petting is not the basis on which to destroy a president.

In this we may look back at this week as the turning point in the crisis. Mr Starr, as unpopular as Mr Clinton remains infuriatingly popular, has detonated his charges. And the president – bruised, battered, humiliated – is nonetheless still standing. The prosecutor, it seems, had calculated that Mr Clinton would be consumed in the firestorm that followed publication of his report. Failing that, the public screening of the president's evidence to the grand jury and the accompanying 2,800 pages of still more tawdry evidence would prove a second, decisive detonation.

It didn't. Mr Starr overplayed his hand. Sure, we saw during the videotaped testimony a president as evasive as he was sometimes angry, as scarred as he was occasionally remorseful. But the watching voters (and the ratings did not come close to those in the O.J. Simpson trial) already knew who they had elected. They could hardly throw out Bill Clinton for being, well, Bill Clinton.

It should be said that the present mood in the White House is not exactly buoyant. But amid the weary embarrassment, there is a sense that the president has been through the worst. And if the man greeting a graciously supportive Nelson Mandela this week looked ragged and worn, he is far from broken.

And here is the essential point about Mr Clinton. This president does not quit. His friends say he will never resign. Never. That probably overstates the case. I think there might come a moment – just – when the politics and his preoccupation with his place in history could persuade him to see resignation as the least humiliating course. We are a long way from there. Mr Clinton still believes he can salvage something of his legacy.

The Republican majority in Congress thinks otherwise. There is scarcely a pretence now of bipartisanship on the House Judiciary Committee examining the Starr report. Henry Hyde, the white-haired chairman of the Republican-dominated committee, still speaks occasionally of observing the constitutional proprieties. His words are empty.

Every move by the committee's Republicans is being closely choreographed by Newt Gingrich, the Speaker of the House of Representatives. There are elections on the near horizon. We can forget about Hamilton and Madison. The Speaker has a score to settle. Mr Clinton, we must remember, comprehensively outplayed him during the 1996 shutdown of the federal government. Mr Gingrich's Republican Revolution was reduced to ashes.

We might recall too that the Speaker was himself censured and fined only 18 months ago for dissembling about his tax affairs. He wants Mr Clinton to pay a higher price. This is personal as well as political. So Mr Hyde's committee will vote for a formal impeachment inquiry. There can be no plea bargaining before the mid-term Congressional elections on November 3.

It is then that the Republicans hope to reap the harvest of Mr Clinton's sins. The party in the White House always fares badly at mid-term (Roosevelt was the last president to buck the trend). And for all their present tolerance of the president's behaviour, there is little incentive for the voters to turn out in support of Democrat candidates. Optimistic Republicans are talking of gains of 15 to 20 seats in the House and of five in the Senate.

The calculation is that such losses would rekindle panic among the remaining Democrats on Capitol Hill. The dynamics of the crisis would turn decisively against Mr Clinton. He would then face the choice between resignation and certain impeachment. It's all too neat. There are too many imponderables, not least the state of public opinion.

It is true, though, that some Democrats fear a second scenario in which the president is impeached almost by accident. This sees the Republican fundamentalists on Capitol Hill so locked in to their present course that nothing allows them to lift the jihad now placed on the president.

Mr Gingrich, though, paid a heavy price for hubris in 1996. He may be over-reaching himself again. America will tire of the torture of its president. And we must remember too that impeachment hearings would see the camera-shy Mr Starr facing the hard questions he has so far dodged.

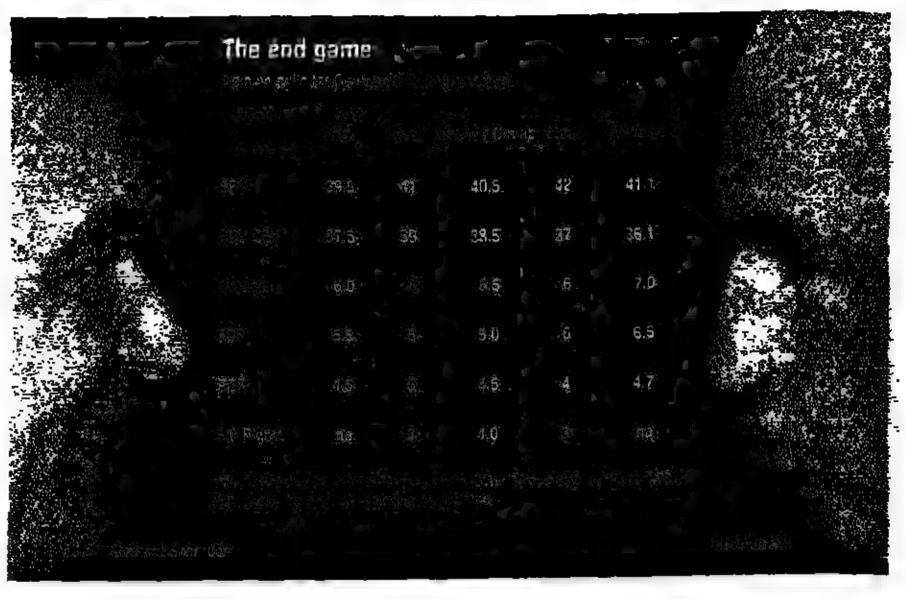
So an accommodation – an admission by Mr Clinton that he lied and a formal motion of censure by the Congress – is the most logical and likely outcome. Those who say that this is not punishment enough fail to understand the ambition Mr Clinton had for his presidency. Nothing could be more painful for this politician than to be remembered for the stain he left on the dress of a young White House intern.

Germany's dead heat

The election has been a highly personalised two-horse race. Paradoxically, it could end with neither contestant running the government, says **Peter Norman**

For Bodo Hombach, economics minister of the German state of North Rhine Westphalia and the strategist behind Gerhard Schröder's campaign to become Germany's third post-war Social Democrat chancellor, one part of a prophecy has come true.

"The end phase of the campaign will see a greater polarisation," he predicted in mid-July. "It will hinge on the question: Kohl or Schröder. The biggest problem for the CDU is Kohl. Our greatest strength is Schröder. When the biggest weakness collides with the biggest strength, there will, I hope, be a satisfactory result."



Certainly greater polarisation is everywhere to be seen. Helmut Kohl, the chancellor, and Mr Schröder, his SPD challenger, are campaigning furiously in the final days before Sunday's general election giving lengthy television interviews and appearing before packed crowds. Mr Kohl's cabinet ministers, Mr Schröder's senior SPD colleagues and the leaders of Germany's smaller parties are hardly visible.

But as the tempo has increased, a satisfactory result appears ever more distant. Instead confusion has grown. The election, which just a few weeks ago appeared a walk-over for Mr Schröder, looks wide open.

If latest polls are any guide, the contest could end in a stalemate which would force their two parties to reach an accommodation and form a "grand coalition".

The polls suggest there would be an SPD-led grand coalition with Mr Schröder as chancellor.But if – and this is a big if – Mr Kohl's Christian Democratic Union and the Christian Social Union, its Bavarian sister party, come from behind to form a CDU-led grand coalition, neither of the two men is likely to be in government.

Having always refused to govern with a grand coalition, Mr Kohl would leave the chancellery after a record 16 years, and 25 years as CDU chairman. Mr Schröder, who says he would only move to Bonn as chancellor, would return to his job as SPD prime minister of Lower Saxony in Hanover.

The paradox of a highly-personalised contest that risks sidelining its two central players frustrates many voters. "I wish we could have a first-past-the-post system like the UK so I could vote for the person I want to run the country," confided one finance ministry official. Instead, a system designed to discourage extremes in the Bundestag, parliament's lower house, forces Germany's more politically-conscious citizens to vote tactically.

The country's complex voting system works as follows. Each of Germany's 60.5m voters has two votes. Half the MPsare elected directly using the first vote. The others are chosen indirectly on a system of proportional representation from candidate lists put forward by the political parties. This second "list" vote is more important because it determines which party or coalition will govern.

In addition, there is a voting threshold of five per cent. But an exception applies for parties with strong regional support who fail to reach that ceiling, such as the former communist Party of Democratic Socialism (PDS), particularly popular in east Germany. As long they win three direct mandates in the first vote, they are represented in the Bundestag in line with their national support.

This is one of the factors making Sunday's election such a cliff-hanger. If the PDS re-enters the Bundestag, it would sharply increase the share of the vote needed to form a government with an effective majority in Bonn. Mr Kohl's existing centrist coalition of CDU/CSU and the small Free Democrat Party (FDP) or the putative leftist coalition of SPD and environmental Greens, headed by Mr Schröder, would need a lead of about five percentage points of the second votes cast.

'I wish we could have a first-past-the-post system like the UK so I could vote for the person I want to run the country,' confided one finance ministry official

Of the past week's opinion polls, only one points to such a clear majority – for the SPD and Greens. Three polls put the SPD-Green lead at between 2.5 and 3.5 points, too low for a Bundestag majority if the PDS passes the five per cent threshold.

Both the SPD and Greens have said they will not take power with PDS support. The SPD would therefore have to approach the CDU/CSU to form a grand coalition.

If Mr Schröder became chancellor of such a coalition, the CDU would have to supply a vice-chancellor. Wolfgang Schäuble, leader of the CDU/CSU MPs in the Bundestag and Mr Kohl's designated successor, would seem the obvious choice. But he and Mr Schröder do not get on. Speculation has therefore centred on Volker Rühe, the CDU's defence minister, for the role of deputy and foreign minister.

In the less likely event of the CDU/CSU becoming the biggest party, Mr Schäuble would most likely be chancellor. Hugely industrious and able, he has overcome the handicap of being paralysed from the chest down and confined to wheelchair since a 1990 assassination attempt and is Germany's most popular politician. His deputy would most probably be Oskar Lafontaine, leader of the SPD.

Although at first sight an odd couple – Mr Lafontaine is widely regarded as a left-wing firebrand – there is a bond of sympathy between them and the two have much in common. Mr Lafontaine was also the victim of an assassination attempt in 1990 and was one of the first people to visit Mr Schäuble after he emerged from his coma. The two men are regarded in Germany as intellectuals – unlike the pragmatic Mr Schröder. Although they have clashed frequently in parliament, they have just as often sought compromises.

Speculation about a grand coalition reached fever pitch in Bonn this week. It was fuelled by Mr Schröder's acknowledgement that the SPD would, if necessary, serve as junior partner in a CDU/CSU-led government if the CDU/CSU had the largest parliamentary party. Mr Kohl's grudging admission that a grand coalition was "possible in principle" fanned the flames.

At first sight, both men were stating the obvious in the event of a stalemate. But their remarks, combined with furious last-minute campaigns by the SPD and CDU/CSU to persuade voters to give them their second votes, have set alarms ringing among the smaller parties.

The Greens have long suspected that Mr Schröder would prefer to lead a "red-black" coalition with the CDU/CSU than a more leftist "red-green" government. The FDP, a frequently obstreperous junior partner in Mr Kohl's coalition, also senses betrayal.

The FDP's chances of clearing the five per cent hurdle for the Bundestag weakened when it polled only 1.7 per cent of the vote in the September 13 Bavarian state election.

Although Mr Kohl has always expressed confidence in the FDP's ability to be re-elected, his decision to break a long-held taboo and talk, albeit briefly, of a grand coalition has prompted FDP fears that the CDU/CSU is pursuing the prize of being the biggest party in the next parliament at all costs.

But the FDP's exclusion from the Bundestag would present Mr Kohl with a pyrrhic victory should he fulfil his own hopes and emerge as leader of the biggest party on Sunday. The disappearance of the FDP as his coalition partner would reinstate "red-green" as the most likely combination to form the next government.

Mr Kohl's career as a party politician in Bonn could thus end as it began in the mid 1970s.

He fought his first general election in 1976 as opposition leader and scored a triumph by winning 48.6 per cent of the votes for the CDU/CSU. But although his was the biggest party, he was forced to stay in opposition by a SPD-led coalition which in those days had the FDP as the junior partner rather than the Greens.

LETTERS TO THE EDITOR

Duisenberg honest on ECB role

From Mr John Wyles.

Sir, Wolfgang Münchau is unfairly hard on Wim Duisenberg, European Central Bank president, for admitting that there is little the ECB could do in response to the emerging countries' financial crisis (Economics Notebook, September 21). This is neither "complacency" nor an indication of "a black hole of power without responsibility".

Duisenberg was making a cheerfully honest statement of fact rather than foolishly issuing policy prescriptions for world recovery even before his bank is properly open for business. If he had done so, Mr Münchau and others would have labelled him a central banking upstart with impudent pretensions to the Alan Greenspan "Merlin of the Markets" role. I note that Greenspan himself has hardly pretended to have the answer to our current difficulties.

In reality, Emu is helpful because, as a nearly accomplished fact, it is protecting key European currencies from market turbulence and thereby preserving important economic growth prospects in euroland. And a second contribution to keeping growth going is in the pipeline. When interest rates converge in euroland at the end of the year at current Franco-German levels, the effect will be a 0.5 per cent reduction in average EU short term rates. This is hardly the equivalent of "waving two fingers" at the rest of the world.

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Longevity is not synonymous with health

From Mr Philip Howard.

Sir, Your headline "Europe's health deteriorates" (September 15) on the report quoting World Health Organisation figures for 1991 and 1994 is rather misleading. You have assumed longevity means good health. A Commission of the European Communities funded report in 1992 entitled "The ageing of the population in Europe" stated:

"In 1950 there were about 50.6m people over 60 years of age in Europe; by 1980 this number had increased to 81.9m and, by United Nations estimates, it is expected to reach 103m by the year 2000 and 139.2m by the year 2025. This means an increase in the elderly population of 70 per cent between 1980 and 2025, whereas the general population will increase for this period by only 6.4 per cent."

Europe is set to see a massive increase in the number of "active octogenarians" and older over the coming years, on a similar scale to that already experienced in America and will have to adapt its healthcare systems accordingly.

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Virtually no travelling

From Professor Warren Edwardes.

Sir, Your article on MEPs' travelling allowances ("Time to stop making allowances", September 21), addresses the issue of allowances. It should have focused more on the travelling. The European parliament should follow trends in the European futures markets ("Liffe set to reveal electronic trade plan", September 14) and abolish open outcry. MEPs (and MPs for that matter) should stay in their constituencies and virtually meet through e-mail, e-forums and video-conferencing.

Timers and word counters would automatically cut off the verbose. And the parliament buildings could go into the hotel business, with parliament renting them for half-yearly physical meetings, alternating between Brussels and Strasbourg.

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FINANCIAL TIMES

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Friday September 25 1998

Lessons from a hedge fund crisis

A worried group of leading US bankers goes into a secret, smoke-filled meeting on Wall Street and emerges with a plan to stop contagion spreading through US markets. September 1998? No. October 24, 1929, at the start of the crash, when J.P. Morgan and its allies famously stepped into the market in an attempt – briefly successful – to restore confidence.

One should perhaps not draw parallels between that event and Wednesday night's rescue of Long-Term Capital Management, the US hedge fund, other than to note that Wall Street has a history of working together in times of financial peril.

But the bail-out of Long-Term Capital demonstrates the extent to which the global financial crisis is now touching the US. It must also raise fresh concern about the prudence international banks have shown in their lending to hedge funds.

The rescue itself is to be welcomed, given the potentially severe impact on global liquidity of a large hedge fund collapse. The Federal Reserve has done well in helping co-ordinate the deal while not putting up its own resources. A Fed commitment of funds would have sent the worst possible message on moral hazard, acknowledging there was a hedge fund too big to fail.

It is the banks that extended loans to Long-Term Capital that will pick up the tab by acquiring most of the fund's equity and its market positions – which may or may not prove loss-making as they are unwound.

How prudent were these houses in their relationships with Long-Term Capital? The banking industry has been assuming significantly riskier business since disintermediation robbed it of traditional fund raising for larger corporate clients. But Long-Term Capital was highly leveraged even by the generous standards of the hedge fund industry.

Perhaps the bankers were lulled into a false sense of security by the blue-chip leadership of the business: John Meriwether, its head, is a Wall Street star of long-standing, and his team includes two Nobel prize winning options experts and a former vice-chairman of the Fed.

LTCM's lenders may also have placed undue faith in the stability of the firm's high-technology bond arbitrage, which exploits small price discrepancies among different securities and is supposedly less risky than the large one-way bets placed by many hedge funds. The lesson of the past few weeks is that there are no safe bets when markets are in turmoil.

The LTCM story should provide a few salutory lessons. Banks should review their risk guidelines on hedge funds, while regulators should look again at the information they receive about those exposures.

Yet knee-jerk reactions would not be helpful. A sharp rise in margin calls on hedge funds would simply worsen the market's liquidity problems. Regulatory scrutiny should focus on the banking decisions that allowed LTCM to borrow so heavily. Attempts to tighten oversight of the funds themselves should be handled with care, lest they merely flee further offshore. Rich people will always find ways of investing their money riskily. The task is to ensure that the risk is not shared unwittingly by depositors at government-guaranteed institutions.

ECB openness

Few would disagree with the argument that the European Central Bank should be transparent and accountable. But a row is now brewing about exactly what transparency should mean.

The question is whether the ECB should make public the votes of the members of its Governing Council. The ECB insists that this would lead to politicisation of the interest rate setting process, as individuals could be under pressure to vote in line with narrow national interests.

But Professor Willem Buiter, in a letter published in this newspaper yesterday, has argued that national interests would actually be more influential if votes were kept secret. He claims that leaks and hints would take the place of a public announcement. Meanwhile, political pressures would still be applied, since "national political insiders" would know what votes were cast. In the fog of uncertainty, members could quietly yield to pressure, without having to justify their stance.

Both sides have good arguments. The answer is that the ECB should aim for the ideal situation – where, with no publication of votes, the Governing Council would be free to act according to the interests of the whole euro-zone – but keep a keen eye out for Professor Buiter's concerns. If leaking did become widespread, or if it became clear that national central bank governors were taking advantage of their anonymity, then publication of votes could become necessary. In the meantime, though, keeping votes confidential is the best bet for keeping politics out of the ECB.

Keeping the breakdown of individual votes confidential could also help to focus the public's attention on the issues facing the euro-zone as a whole, rather than on national concerns. This change in mindset will be crucial for monetary union to retain public support. In all other ways, the ECB must be as open as possible. The press releases accompanying interest rate decisions should be detailed; its reporting commitments to the European Parliament should be taken very seriously; and it should consider publishing its minutes, omitting only the final vote.

The ECB is a new institution, with no track record, which will be operating in a very uncertain environment. It must do all it can to build its own credibility. But some privacy may be needed if it is to achieve this aim.

Asian fission

At last some good seems to be coming from last May's nuclear tests. Pakistan has said it will sign the Comprehensive Test Ban Treaty within a year and agreed with India to begin discussions on easing tensions in Kashmir. But Nawaz Sharif, Pakistan's prime minister, says he will only sign the treaty if the US and other countries first abandon sanctions, including the ban on new loans by the World Bank and International Monetary Fund.

The US and its allies must thus decide whether to take Pakistan's promise seriously. There are reasons for doing so. Pakistan's economy is on the brink of collapse. It badly needs IMF help, and given the volatility in the region, there is a general interest in its economy recovering. It would be unrealistic to ask for more than Mr Sharif's categoric public promise.

There will be opposition at home to signing the test ban treaty, especially after the US strikes against terrorists in neighbouring Afghanistan. Mr Sharif will also have to expend considerable political credit in selling the tough programme that the IMF must require, given the dire state of the economy. But he has little choice. Pakistan has failed to raise significant alternative support from its friends in the Middle East.

Sanctions have put less economic pressure on India, but it must also sign the ban treaty for two reasons. First, the two countries must move in tandem if one is not to be left feeling more vulnerable. The BJP government should also sign out of self-interest – to help restore the confidence of financial markets at a time when it urgently needs to move forward with privatisation and prepare for important state elections this autumn.

But because the incumbent government would benefit from more confident markets, a consensus on the treaty in New Delhi may be difficult. If that does not happen, Pakistan's resolve will understandably waver. And India would then be blamed.

Past performance does not give much ground for hope. But perhaps more surprising than Pakistan's test ban announcement at the UN this week has been the warmth behind the two countries' decision to move ahead with talks on Kashmir. Quick progress is unlikely, but, if both countries have finally realised that the nuclear tests have raised the stakes, there will be more chance of them moving in the right direction.

Emperor stripped bare

The rescue of John Meriwether's hedge fund is a defining moment for Wall Street, says Richard Waters

The timing could hardly have been more apt – or more alarming. At the very moment on Tuesday when Alan Greenspan, the chairman of the Federal Reserve Board, was warning the US Congress of the dangerous new fragility that has crept into the financial markets, Wall Street's finest were gathering in New York to rescue an institution which has the potential to disrupt already jittery markets and even start a credit crunch.

The object of their concerns was not a bank that had lent unwisely. Nor was it an emerging market that had become too dependent on fickle foreign capital – the usual suspects that keep central bankers awake at night.

It was a hedge fund called Long-Term Capital Management, run by one of Wall Street's "masters of the universe", John Meriwether. It was as if one of America's great financial institutions was facing ruin.

This is an affair that goes to the heart of the most sophisticated modern financial operations. Mr Greenspan has warned Congress for some months that it is the instability of the financial system, rather than the state of the global economy, that poses the most immediate threat to American prosperity. To judge by his comments before the Senate earlier this week, he still remains a fan of modern markets – but he worries that the speed and mercilessness of the markets may sometimes wreak havoc.

By making it possible to carve up risks more effectively, said Mr Greenspan, derivatives such futures and options help create a more efficient mechanism for directing capital to the most suitable users at the lowest cost. He added, though: "It is a system more calibrated than before to not only reward innovation but also to discipline the mistakes of private investment or public policy."

Long-Term Capital provides a vivid example of how that savage the discipline can be. Thanks to his vaunted reputation, Mr Meriwether, who used to run Salomon's bond-trading operations, was able to draw down vast pools of money from the markets.

Unfortunately, contrary to its name, Long-Term Capital turned out to be a short-term institution. The money sucked in threatened to flow out again – just as it had from Indonesia or South Korea. And with its near-collapse, Long-Term Capital is testing an entire form of finance built on the technology of the derivatives markets, to destruction. It also turns out to pack an unexpectedly large punch: more than $100bn could be at risk, according to people involved in the bail-out.

One measure of Long-Term Capital's importance is the manner in which it was pulled back from the brink on Wednesday night.

The New York Fed, which is charged with ensuring the smooth running of the nation's financial markets, does not use its powers of persuasion lightly. Yet it took the unusual step of nudging some of the country's biggest banks to come up with extra support for Mr Meriwether. If the hedge fund's exposures do indeed reach anything close to $100bn, then the institution's power to disrupt the financial markets was as great as any fair-sized bank or country. The clear message: this fund was too big to fail.

By contrast Barings, the UK investment bank that was sunk by Nick Leeson's unauthorised trading in Japanese stocks, suffered the opposite unhappy fate: it could be allowed to fail without fear that the ripples would submerge other institutions as well.

But Long-Term Capital is dangerous not only because of its sheer size. Just as important, the very nature of its complex investments meant that, if it failed, no one really knew what the consequences might be.

When Drexel Burnham Lambert, the creation of junk bond king Michael Milken, folded in 1990, the effects in the financial markets were direct and measurable. The market for sub-investment grade debt that Mr Milken had invented went into a tailspin: but the effects were limited, largely foreseeable – and junk bond finance soon revived to become a driving force on Wall Street again by the mid-1990s.

With Long-Term Capital, though, things are far less clear. In common with other hedge funds, it was not subjected to any requirements to disclose the nature of its investments. With their exposure to an array of international markets, often through highly leveraged derivative instruments, hedge funds such as Long-Term Capital have become agents of the financial contagion that has swept around the world since Russia defaulted on its foreign debts. When funds like these retrench across the board, the contagion can leap across oceans, spreading from Asia to Latin America.

Because of this uncertainty, the banks that lined up to back Mr Meriwether do not – indeed cannot – yet fully understand what they have bought. But they took the view on Wednesday evening that it was better to save the fund and find out what was wrong during a period of relative calm, rather than let it go under, and discover the worst in a forced liquidation: it was simply not possible to predict what knock-on effects this would have triggered.

While the bomb has been defused for now, however, the story is far from over. Three questions stand out.

First, and most immediately, what happens to Long-Term Capital and its massive exposures? If calm returns to the financial markets, the banks that saved the fund may find that by early next year they can wind down many of its investments and even show a profit for their troubles. That is what they hope.

But that is a big if. It is difficult to see exactly how contagion and instability will be brought to and end. Also, the presence of such a large fund as Long-Term Capital waiting to be unwound will itself hang heavily over the markets. So will the heightened level of fear prompted by this week's events.

Second, there is the question of whether there are more such bombs waiting to go off – and in particular whether (if there are) Wall Street will have the appetite to come to the rescue next time.

This is a question that will preoccupy credit-risk managers and central bankers in North America and Europe in the coming weeks. But the fact that they are only just beginning to try to find out the extent of the exposures to hedge funds is hardly an encouraging sign. Like indulgent parents, they may have allowed these offspring to grow into unruly teenagers that they can no longer understand or control.

If more funds fail, the appetite for further bail-outs may well prove limited. The Wall Street houses that lined up to back Mr Meriwether have been engaged in a flight from risk ever since Russia defaulted. As the head of one big investment bank put it in August, the time had come to "batten down the hatches." That means scaling back their balance sheets, reducing exposures to markets that are considered the most scary, cutting back lines of credit to more doubtful institutions – including hedge funds.

Among the people to line up behind Mr Meriwether was Sandy Weill, chairman of Travelers and the man who will control America's biggest financial institution when his acquisition of Citicorp is completed in two weeks' time. Mr Weill has already made it clear that he does not have any appetite for this type of risk: within months of buying Salomon Brothers last year, and enraged by that bank's hefty losses from forms of trading very similar to Mr Meriwether's, he closed down Salomon's own high-risk bond trading positions. He is unlikely to keep dipping his hands into his pocket if other hats are passed around.

The third, and perhaps most troubling question is what on earth can be done in the long term, to the financial system to limit the risk of more problems like Long-Term Capital's?

Heavier regulation of hedge funds might be one option, but it would probably prove ineffective. Unlike commercial or investment banks, these funds are not required to hold certain levels of capital as a buffer against losses – a luxury Mr Meriwether took to the extreme by piling a mountain of liabilities on a relatively slender capital base.

As one US financial regulator said yesterday, capital rules would probably prompt the hedge funds simply to shift their operations to an off-shore centre like the Cayman Islands. The only sure-fire way of building a fence around a domestic financial system is to erect the sort of currency controls that Malaysia has just imposed – hardly an option for a developed economy.

That suggests that Wall Street will have to discipline itself. And this time around, it may have received the sort of surprise that will induce more caution, at least for a time.

Other financial debacles in the derivatives markets have been blamed on the failure of individual institutions, rather than any inherent danger in the markets themselves. When Orange County was pushed into bankruptcy four years ago, it was blamed on the naivety of Robert Citrone, the county treasurer who had decided to dabble in high finance. When Bankers Trust, an early pioneer of the derivatives markets, came unstuck, it was put down to a lack of control over the bank's gung-ho traders.

This time, Wall Street will find it harder to shrug the debacle off. Some of the best-known investment and commercial banks believed devoutly in the methods that Mr Meriwether and his troops were using. They invested heavily in them, too. This was a fund, after all, that could boast not one but two Nobel laureates, including one of the men credited with developing the theory for pricing options, the intellectual foundation on which the derivatives markets have been established.

Mr Meriwether and his cohorts numbered themselves among the emperors of modern finance. The emperor, it turned out, had no clothes.

OBSERVER

Red stars rise in the east

East Germany's former communists – now trading under the name the Party of Democratic Socialism – are still holding out against full-blooded market capitalism. But when it comes to marketing, the PDS is bang up to date.

Rather than boring voters with chunks of its wordy manifesto, the PDS has opted for a fashionably minimalist approach spiced with provocation. Some posters simply say *Cool*. Others invite voters to *Give Them a Sign*, complete with a handy demonstration of an obscene finger gesture.

In a bid to capture the youth vote one is even emblazoned with the word *Horny* which, other meanings apart, is street parlance for "groovy".

The jury is still out on this attempt to be the trendiest party in the polling booth, and there's been some derision from the super-cool: inevitably, street language has moved on. But if the PDS's marketing types had been available to clear old Karl Marx, the world might have been very different.

Mullins magic

Fear of financial meltdown was certainly one reason for the Federal Reserve Bank of New York's intervention to help save Long-Term Capital Management, the hedge fund run by veteran bond trader John Meriwether. But the affair shows that personal connections still linger on Wall Street.

A crucial role appears to have been played by David Mullins, who resigned as vice-chairman of the Fed in February 1994 to become a partner of Long-Term Capital.

When Mullins left the Fed, he said the serious financial problems on which he had worked – like the savings and loan crisis, failures and stress among commercial banks, the stock market crash of 1987 and the 1990-91 recession – "have essentially been resolved".

If there were no troubles way back in 1994, Long-Term Capital has certainly helped to stir some fresh ones up now. If Mullins enjoyed fixing crises so much, he must be a very happy man.

Mealy mouthed

As Cambodia's King Norodom Sihanouk entertained the new parliament to lunch at the elegantly refurbished Gran Hotel at the foot of the Angkor Wat temple complex, the table talk wasn't all about who'd bagged the biggest majority.

Strongman and electoral victor Hun Sen had just escaped a rocket attack that killed a 13-year-old boy, and was busy blaming the political opposition, who were all at the big feast.

Did Hun Sen mean that Sam Rainsy, the slightly off-kilter reformer, was trying to end his regime? Or that Prince Norodom Ranariddh, himself a victim of Hun Sen's violence a year ago, had drawn on some of the loyalty to him in the army? Or that Chea Sim, Hun Sen's low-key rival in the ruling party, was making a bid for power?

Some around the tables even whispered that an attack staged by his own henchmen would have provided Hun Sen with a good excuse to crack down on the opposition.

More than 150 political murders in Cambodia have not been solved in the last 18 months, so we will probably never know the truth. Among yesterday's clinking of silver tableware, soft piano music and popping of wine corks, there were no arrests.

On the line

It's crunch time for Gian Maria Rossignolo, the 68-year-old chairman of Telecom Italia. When the former salon of Fiat took over the newly-privatised group earlier this year, his swashbuckling managerial style earned him the tag of the "John Wayne of Italian capitalism".

His determination not to appoint a chief executive and a series of gaffes – including an announcement at his first annual meeting about the conclusion of an international partnership that had not yet been signed – added to the sense of unease.

Today the Telecom Italia board meets to decide its international strategy, but perhaps a bigger test lies in the days ahead: can he firm up a deal with Rupert Murdoch for a six-year pay-TV contract to broadcast Italian football?

"Rossignolo needs one clear success and hasn't yet had one," said a senior figure in the company yesterday. "There are a lot of people against the move inside Italy, but a deal would be impressive."

Purity pact

The Portuguese media has called time on smutty stories. The country's leading newspapers, television and radio stations have signed a solemn undertaking to withdraw from that "giant spectacle of collective voyeurism" the world calls Zippergate.

It seems that contrition is spreading like a contagion from the White House. Apparently the front-page publication by leading daily newspaper Diario de Noticias of intimate sexual detail from the Starr report helped spark the editors' treaty.

The Lisbon line now is that the Starr report is "obsessive and degrading" and the Portuguese press won't sully its pages with any more salacious snippets. Unless, of course, it's in public interest to do so.

The Financial Times 100 years ago

Occult Book Company

A pamphlet has been sent to us by the Occult Book Company of Halifax, showing how coming events may confidently be anticipated by means of astrology. From this we find that several interesting circumstances will attend the equinox. Mars will be in the 12th House in the Sign of the Crab, which sounds as if Mars were out on a whisky walk. But the great point is that from these and various other peculiar symptoms Mr. G. Wild, of the Occult Book Company, is able to inform us that "these positions are good for railway returns, Post Office reforms and speculative business."

50 years ago

Hat Makers Worried

In an attempt to persuade more men to wear hats the British Felt Hat Manufacturers' Federation has adopted a plan to set up a hatters' information centre. This will inaugurate and conduct a publicity campaign and public relations service. The felt hatting industry centred largely in Cheshire and Lancashire is experiencing short-time working and unemployment because of insufficient demand at home and import restrictions by some countries.

FINANCIAL TIMES

FRIDAY SEPTEMBER 25 1998

THE LEX COLUMN

Nobel explosion

The near-collapse of Long-Term Capital Management is a stark reminder of Wall Street's talent for self-delusion. Yet again bankers have convinced themselves that it is possible to enjoy exceptional returns with little risk. LTCM's arbitrage trading strategy seemed just such a miracle money-spinner – particularly since the underlying assets, such as sovereign bonds, were high quality. Equally, its management, festooned with Nobel laureates, was seen as too smart to get into trouble. As a result, the world's top banks lent it huge sums, allowing LTCM to take $80bn worth of positions on capital of $4.8bn.

But even Nobel laureates find it hard to separate risk and return. In essence, LTCM was functioning as a huge reinsurance company for Wall Street, taking on risk the big banks wanted to lay off. That these same banks were simultaneously lending it the money to do so defies logic. And now that the emerging markets hurricane has blown LTCM over, they were left with little choice but to bail it out. Having bought valuable time, some of LTCM's trades should even end up making a profit – on the back of which the fund wants to raise fresh capital. That really is *chutzpah*.

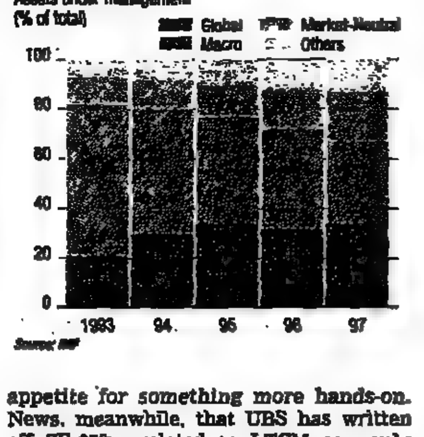
Hedge funds

There will be no shortage of *schadenfreude* at the troubles of Long-Term Capital Management. But do they mean difficulties for the hedge fund industry more broadly?

Not necessarily. Hedge funds pursue a multitude of different strategies. LTCM was an arbitrage specialist; the low-risk perception of this category is now in tatters, as are the career prospects of maths and physics PhD students with black-box investment solutions. But big name macro-funds like George Soros's Quantum should be relatively unscathed. Their bets are less one dimensional and much less leveraged.

Regulators, bankers and investors however may not appreciate the distinction. The Federal Reserve, in particular, is sure to demand a pound of flesh for underwriting a bail-out. It may lean on the banks to demand greater transparency from the funds they lend to. And, once acquired, even indirect regulation may foster an

Hedge funds
Assets under management (% of total)



appetite for something more hands-on. News, meanwhile, that UBS has written off SFr950m related to LTCM can only increase calls for fire-walls to be erected in banks between their risk activities and those using deposit insured funds.

For their part, investors may well demand greater disclosure and shorter lock-up times. But they will surely not shun the industry. The irony of the LTCM saga is that it coincides with difficult markets that favour the discretionary management style of hedge funds. The smart money will be looking for managers who can ensure capital preservation. Many of them work at hedge funds.

Diageo

Investor anxiety at Diageo's emerging market exposure has overshadowed the merger story to an unnecessary extent. With a deal this big, costing £1bn in restructuring charges and other merger-related bills, the interesting question continues to be: is it worth it? The answer remains yes, even though it will take longer for the benefits to outweigh emerging market minuses.

Since July Diageo's market value has tumbled £10bn to £18bn, twice the percentage drop of the FTSE 100. This seems to be discounting the complete disappearance of the £340m operating profits deriving from Asia-Pacific and Latin America – less than a fifth of the group total. Highly unlikely. It is easier to understand the 40 per cent share price slide at LVMH, which has a far higher exposure to Asia and has seen its $2.5bn DFS acquisition plunge into the red.

For those focusing on Diageo's merger progress, it was good to see eventual annual savings shooting up 50 per cent to £290m by 2000-2001, although the £630m bill for this looks high compared with other mergers. Taxed and discounted to a present value, the savings are worth about £1.6bn on a multiple of 10. Taken with the reduction in capital, improving returns, and the share buyback which will salvage earnings per share growth this year, the merger passes muster just as a pruning exercise. If Diageo can also use its marketing power to reignite the top line, that will be a bonus.

PowerGen

PowerGen's gamble has paid off. The price for UK government clearance of its bid for East Midlands Electricity is two coal-fired power stations – well worth paying. Faced with an inevitably declining share of the generating market, PowerGen's strategy of vertical integration has its merits: a route to market for its electricity. Right now, it looks more promising than investing in power stations in emerging markets, like rival National Power.

But the trade and industry department's decision raises concerns. It has overruled two regulators. The Office of Fair Trading recommended a Monopolies and Mergers Commission investigation. The electricity regulator wanted three power stations to go.

Of course, the DTI's ruling goes in the right direction, but the risk is that it will not be enough. The key is how many new entrants there are in the price-setting portion of the generating market. This is especially important as the ill-thought out restrictions on gas-fired power stations limit competition.

True, National Power will also be required to sell plant, which may deliver the magic number of new entrants to stimulate competition. But the government has less leverage over National Power, which has no bid it wants cleared. That generator may be prepared for a long fight over disposals. But it will still need to convince the market that it too has a strategy for growth.

DEFENCE MINISTERS DETERMINED TO AVERT HUMANITARIAN CATASTROPHE IN KOSOVO

Nato ready for Yugoslavia air strikes within weeks

By Alexander Nicoll in Vilamoura, Portugal, and Marc Champion in London

Nato signalled yesterday that it would carry out air strikes in Yugoslavia within weeks unless Slobodan Milosevic, the country's president, complied with Wednesday's United Nations resolution demanding a ceasefire and a negotiated solution to the crisis in Kosovo.

The North Atlantic Council, the alliance's decision-making body, authorised military chiefs to move to the final stage of readiness for an air campaign, seeking formal commitments from Nato members to provide aircraft and other military assets.

A Nato official said defence ministers of the alliance, meeting in the Portuguese resort of Vilamoura, displayed unanimous determination to avert a humanitarian catastrophe in the Serbian province, the scene of a military offensive against pro-independence rebels. Some 50,000 ethnic Albanian refugees are estimated to be living in the open as winter sets in.

Ministers emphasised that Nato still hoped for a diplomatic solution and that Mr Milosevic would be given time to comply with the UN's demands. But William Cohen, US defence secretary, said: "A very short period of time will determine whether diplomacy is going to be successful or not."

Nato and western governments have threatened Mr Milosevic numerous times before, only for these threats to prove empty. But with a UN resolution now in place there appears to be a growing determination to act.

George Robertson, the British defence secretary, describing the decision as a "step change", said air strikes could lead to a range of further Nato operations including the dispatch of ground troops to police a ceasefire or support provision of humanitarian assistance.

Initial strikes against Yugoslavia, which comprises Serbia and Montenegro, could involve the use of up to 80 aircraft, as well as ships and submarines carrying cruise missiles.

"We expect any air campaign would be a phased campaign," said Walter Slocombe, US undersecretary of defence. "The targets would be military targets. Very, very effective and very, very strong blows would be aimed at the very instruments that Milosevic is using to carry out this repression."

Javier Solana, Nato secretary-general, said Nato was not yet issuing an ultimatum, but the UN resolution and Nato's decision "cannot be more clear".

The UN resolution cites chapter seven of the UN charter covering use of force, but does not explicitly authorise it. Nato allies have not resolved internal discord on what would constitute a legal basis for military action, with Washington believing Nato does not need any further UN authorisation but other countries preferring to obtain one.

However, there were indications of a compromise under which Nato would act depending on Mr Milosevic's behaviour and conditions for refugees.

West clings to Bosnia hopes, Page 2

France wants stronger role for EU in global financial reform

By Robert Graham in Paris

France wants to strengthen the European Union's political role in stabilising world financial markets and overhauling the International Monetary Fund and World Bank.

It has sent 12 proposals to EU governments in the most far-reaching attempt yet by a member of the future European single currency to ensure the euro is backed by an active diplomatic approach to international financial issues.

The initiative follows ideas outlined earlier this week by Tony Blair, the British prime minister, for reform of the IMF and for dealing with financial instability.

The proposals will be discussed at the meeting of EU finance ministers due to be held today and tomorrow in Vienna. France's aim is to coordinate a eurozone position before the IMF and World Bank annual meetings, which begin next month. France has accepted that the newly-formed Euro-11 council – the informal discussion body for countries taking part in the first wave of the single currency – should expand its meeting this weekend to include Britain, Denmark, Greece and Sweden, the four EU countries that will not join the single currency in January 1999. This recognises the importance of bringing the UK into the discussions, especially as it is currently chairing the Group of Seven leading industrial economies.

French officials accept that several of the ideas floated this week by Mr Blair are similar to their own, with the difference that the UK prime minister chose not to propose a common EU initiative.

The French proposals cover what officials call "the role of the fireman and the role of the architect" – short-term fire-fighting measures and longer-term measures to rebuild international financial institutions.

The French argue that in its fireman role, the EU should send a mission to Tokyo to express concern over the Japanese authorities' inability to produce credible policies and measures to tackle its banking crisis. Paris wants another mission despatched to the US, to convince Congress of the "critical" need for an increase in IMF quotas.

Dominique Strauss-Kahn, French finance minister, is also pressing for a formula to extend the monetary stability of the eurozone into east and central Europe, while encouraging the four EU countries outside the single currency to join as "soon as they deem possible".

The principal institutional reform proposed involves the transformation of the IMF's interim committee into a decision-making council, meeting more regularly. This would mean introducing "genuine political governance" to the IMF. The French do not share Mr Blair's idea that the IMF and World Bank should merge.

A voice for the euro, Page 2

CONTENTS

The UK and Iran are to resume diplomatic links ruptured when author Salman Rushdie, above, was named in a 1989 death edict. Page 10

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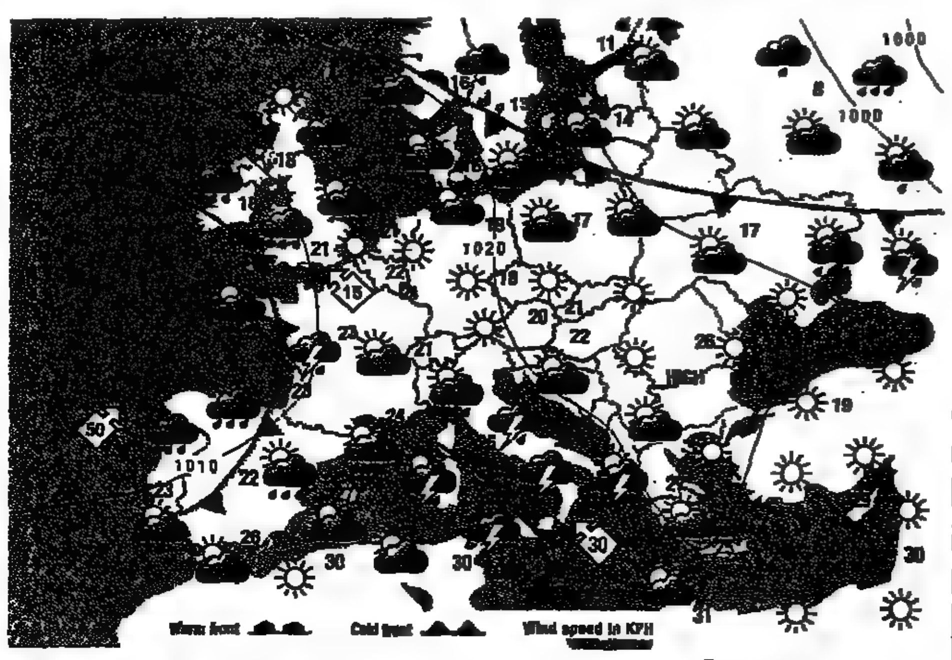
FT WEATHER GUIDE

Europe today

From eastern France to the Black Sea, it will be fine with sunshine after morning fog clears. A frontal system over Spain and western France will bring heavy, thundery showers or longer spells of rain. The central Mediterranean from Malta through Italy to the southern Alps will have thunderstorms with locally heavy downpours. Northern Scandinavia and north-western Russia will be cold with showers or drizzle. Southern Scandinavia will be drier and milder with sunny spells apart from drizzle over southern Norway.

Five-day forecast

Thunderstorms over the Mediterranean will drift over Greece and peter out on Saturday. Thunderstorms over Spain and France will drift east, affecting central and western Europe and the Mediterranean by next week. Eastern Europe will stay fine. It will be cold and showery in the north.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	39
Accra	Cloudy	28
Algiers	Fair	29
Amsterdam	Sun	22
Athens	Fair	27
Atlanta	Sun	29
B. Aires	Fair	19
B.ham	Shower	21
Bangkok	Thunder	31
Barcelona	Shower	25
Beijing	Sun	25
Belfast	Shower	18
Belgrade	Sun	23
Berlin	Fair	19
Bermuda	Shower	29
Bogota	Cloudy	19
Bombay	Fair	32
Brussels	Fair	22
Budapest	Fair	22
C.hagen	Fair	16
Cairo	Sun	31
Caracas	Cloudy	32
Cardiff	Shower	20
Casablanca	Fair	25
Chicago	Shower	28
Cologne	Fair	22
Dakar	Fair	31
Dallas	Fair	34
Delhi	Rain	28
Dubai	Sun	39
Dublin	Shower	19
Dubrovnik	Shower	23
Edinburgh	Shower	18
Faro	Shower	23
Frankfurt	Fair	20
Geneva	Fair	21
Gibraltar	Shower	25
Glasgow	Cloudy	18
Hamburg	Fair	20
Helsinki	Fair	11
Hong Kong	Fair	31
Honolulu	Fair	31
Istanbul	Fair	22
Jakarta	Thunder	33
Jersey	Shower	20
Johannesburg	Sun	25
Karachi	Sun	35
Kuwait	Sun	42
L. Angeles	Fair	23
Las Palmas	Fair	28
Lima	Cloudy	20
Lisbon	Shower	23
London	Shower	21
Lux.bourg	Fair	21
Lyon	Fair	28
Madeira	Fair	26
Madrid	Rain	22
Majorca	Shower	27
Malta	Thunder	28
Manchester	Shower	20
Manila	Thunder	33
Melbourne	Fair	18
Mexico City	Fair	25
Miami	windy	30
Milan	Shower	21
Montreal	Shower	21
Moscow	Rain	8
Munich	Sun	18
Nairobi	Cloudy	24
Naples	Thunder	24
Nassau	Thunder	32
New York	Fair	25
Nice	Shower	24
Nicosia	Sun	29
Oslo	Shower	16
Paris	Shower	23
Perth	Shower	21
Prague	Fair	18
Rangoon	Fair	33
Reykjavik	Drzzl	11
Rio	Fair	26
Rome	Fair	25
S. Frsco	Fair	21
Seoul	Fair	27
Singapore	Cloudy	32
Stockholm	Fair	13
Strasbourg	Fair	21
Sydney	Shower	18
Tangier	Shower	25
Tel Aviv	Sun	30
Tokyo	Thunder	26
Toronto	Shower	25
Vancouver	Fair	17
Venice	Fair	23
Vienna	Sun	20
Warsaw	Fair	17
Washington	Cloudy	27
Wellington	Cloudy	15
Winnipeg	Shower	19
Zurich	Fair	19

FINANCIAL TIMES
COMPANIES & MARKETS

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UBS predicts losses of up to $700m

Bank's deficit caused partly by exposure to troubled fund manager LTCM

By William Hall in Zurich

UBS, Europe's biggest bank, will lose up to SFr1bn ($700m) in the third quarter because of heavy losses on its equity and emerging markets business and a SFr950m write-off on its exposure to Long Term Capital Management, the troubled hedge fund manager.

The news of UBS's losses came only a month after the Swiss bank announced a rise in first half net profits to SFr3bn and reported it had already reduced its appetite for risk since the start of the year. UBS shares, which had risen more than 5 per cent at one stage yesterday, fell more than 10 per cent, to SFr365, as news leaked out about the press conference scheduled for after the Swiss stock exchange closed.

UBS, one of the few banks in the world to retain a triple A credit rating, had been considered one the more conservative operators in the financial markets until yesterday. While the losses on its emerging markets and equity trading did not come as a total surprise, analysts were unnerved by the size of its exposure to LTCM, which had never been publicly disclosed before.

Marcel Ospel, UBS chief executive, said LTCM used to be the "Rolls-Royce" of the global hedge fund industry. It had been generating returns of up to 40 per cent and was managed by the "elite" of the hedge fund industry. The management of the old Union Bank of Switzerland, before its merger with Swiss Bank Corporation, had taken a stake in LTCM with the intention of forming a fund of funds, which would be sold on to investors.

However, the operation did not prove a success and UBS was left with a much larger exposure than anticipated. Mr Ospel said he did not know why the marketing of the fund to investors had failed but indicated that it could have been a management oversight because it occurred during the time the two banks were awaiting official approval for their merger which was not consummated until July 1. Mr Ospel emphasised yesterday that the two banks had reduced their combined risk appetite by 40 per cent since the merger. He also said the group's structural earnings power remained unaffected and he expected the bank would recoup some of the losses on its equity trading book, unlike its stake in LTCM. UBS has injected $300m into the LTCM rescue and expects to own between 10 and 15 per cent of the equity.

The losses were a result of the global financial crisis, said Mr Ospel. Volatility in the share markets of the industrialised world had practically doubled, negatively affecting the value of UBS's equity trading book

UBS, which analysts had expected to earn more than $1.25bn a quarter following the merger, expects to report an after-tax loss of SFr500,000m to SFr1bn in the third quarter. Net profit in the second half is expected to be modest.

Lex, Page 18
LTCM Special, Page 20
Deutsche Bank purchase, Page 22

US personal-organiser maker Day Runner has launched a £47.9m ($80.5m) hostile bid for its UK rival Filofax. Chairman Mark Vidovich (above) said Filofax's "brand is not what it was, but that doesn't mean it isn't a good brand". Report, Page 24 Picture: Colin Beere

Dresdner hit by rogue trading in Russian bills

By Graham Bowley in Frankfurt

Rogue traders at Dresdner Bank, Germany's third largest bank, broke bank rules by buying Russian GKO treasury bills just before the market crashed causing losses of millions of D-Marks, the bank disclosed yesterday.

The treasury bill losses, in the "small double-digit millions of D-Marks", were incurred by a bank unit – which Dresdner refused to name – even though it was against bank policy to invest in GKOs.

Bernd Fahrholz, board member responsible for Russia, said: "Our policy was not to engage in GKOs. We have not been in GKOs except by individual mistake with a very small amount."

Separately, he said Russian companies had already paid back some short-term loans since the country's financial crisis began. He also signalled Dresdner was willing to resume lending to some trusted Russian companies once the crisis had calmed.

"There could be some business going on once the smoke has cleared because we have some good relationships," he said.

Dresdner has made provisions of about DM100m ($59m) to cover its losses on GKOs as well as losses on Russian corporate bonds that were on its books when the crisis hit. It has also lent Russian companies and the Russian government about DM1bn that is not backed by western government guarantees or trade deals. It has made provisions to cover 60 per cent of this amount.

About DM700m of the lending is rescheduled London Club debt owed by the Russian government. About DM300m is new lending, which includes small syndicated loans to banks and commodity financing for Russian companies.

Dresdner's losses are less than many other western banks that had a deeper involvement in Russia's capital markets, but they raise concerns about controls within the bank. Deutsche Bank, Germany's biggest, is believed to have exposure to GKOs and other short-term securities of about $290m.

Dresdner has a commercial bank in Russia in a joint venture with BNP of France. Its investment banking division, Dresdner Kleinwort Benson, also has a Moscow office.

Mr Fahrholz said Dresdner was confident of receiving full interest payments on London Club debt owed by the Russian government that fall due this year. This is despite the Russian government's delay on interest payments on Paris Club debt to western governments, due at the end of last month.

"Mr Primakov [the Russian prime minister] has said they will pay all the debt," he said.

Dresdner was also confident several big loans to Gazprom, the huge Russian gas company, were not a risk to the bank because they were backed by revenues from gas piped to the west.

Santander cuts jobs, Page 22

First IPO in a month sees shares surge

By John Labate in New York

The first US initial public offering for four weeks yesterday rose almost 200 per cent over the offer price in early trading, shrugging off recent market turbulence.

Shares in eBay, a California-based online auction service, began trading at midday and immediately shot up to $53½ from its offer price of $18. About 9 per cent of the company was sold into the market, in the offering of 3.5m shares. The surprisingly strong flotation came amid a downward trending stock market, with the Dow Jones Industrial Average off more than 87 points by early afternoon at 8,067.13.

Analysts were split as to whether eBay's offering itself would break the chill that has hung over the IPO market since late August.

"It's a signal to the market that the strongest companies will be coming to the market now," said David Menlow, president of the IPO Financial Network. Until the recent fall-off in IPO activity, a glut of internet shares filled the market calendar, although few had demonstrated their operations were capable of turning a profit.

Steven Tuen of the IPO Value Monitor said: "eBay's really testing the waters after a hiatus in the IPO sector. Ebay is a strong offering, but it doesn't necessarily mean it will open the floodgates again." If IPO activity did pick up, there would not be a sharp rise in offerings until at least the second or third week in October, given the time needed for roadshows and pricing of deals, Mr Tuen predicted.

Some 73 IPO deals remain in the pipeline but have yet to be priced, according to Securities Data Company.

eBay is rare among internet IPOs, in that it is a leader in its niche and is also profitable. Last year the company had earnings of $874,000 on revenues of $5.7m. The company, which began operating in 1995, manages online auctioning involving a person-to-person trading community for items ranging from antiques to computers.

The lead underwriter for yesterday's IPO is Goldman Sachs, the investment bank in the midst of deciding whether to proceed with its own public offering, which was expected later this year.

Up to yesterday, the average IPO has been a poor performer in the aftermarket. According to Securities Data, a typical IPO has lost 12.1 per cent from its offer price. But few investors get in to such deals at the offer price, and so have seen even heavier losses as a result of the turbulent market.

World stocks, Page 35

SAS and Singapore Airlines to sign code-sharing alliance

By Tim Burt and Michael Skapinker in Stockholm

Scandinavian Airlines System, a member of the six-carrier Star alliance, will sign a code-sharing agreement with Singapore Airlines in the latest tie-up in the consolidating airline industry.

Executives at SAS, which yesterday unveiled a SKr700m ($85m) overhaul of its corporate identity, said the partnership with Singapore Airlines (SIA) could pave the way for the Asian carrier's participation in the Star alliance.

The tie-up follows the launch earlier this week of the five-carrier Oneworld alliance, involving British Airways, American Airlines, Cathay Pacific, Qantas and Canadian Airlines.

Mr Jan Stenberg, SAS chief executive, emphasised that SIA – which already has a code-sharing agreement with Lufthansa, another Star member – had no immediate plans to join the alliance, although it was an option for the future. "We could manage 10 carriers within Star," he added.

Mr Stenberg was speaking as SAS – 50 per cent owned by the governments of Sweden, Norway and Denmark – launched its first new livery for 15 years. The overhaul, coinciding with a SKr12bn fleet renewal programme, is the first rebranding of a leading carrier since British Airways unveiled its new corporate identity last year.

Mr Stenberg said SAS was maximising revenue and cost benefits from its membership of Star, which includes United Airlines of the US, Varig of Brazil, Lufthansa, Air Canada and Thai Airlines. Airline officials predicted SAS would derive savings of more than SKr500m from Star this year.

Vagn Sörensen, the SAS director responsible for alliances, said the Star carriers were exploring associate membership for smaller airlines and confirmed that SAS was in talks with All Nippon Airways, Japan's second largest airline, about possible participation.

Asia turmoil hits sales of European consumer goods

By John Willman, Robert Graham and Paul Betts in London

Concern over prospects in emerging markets hit the shares of Diageo, LVMH and Gucci yesterday as all three European companies reported profit falls due to Asian market turmoil.

Diageo shares fell 21p to 497p after the food and drink group reported a 4 per cent fall in pre-tax profits before exceptionals for the 12 months to June 30 from £1.93bn ($3.24bn) to £1.85bn.

A 30 per cent fall in drinks profits in Asia and a £150m hit from currency movements had been largely anticipated by analysts. But markets were alarmed by the group's warning that economic uncertainty in Russia and Latin America was hitting spirits sales since the start of this financial year.

LVMH shares fell over 5 per cent to FFr829 after the French drinks and luxury goods group reported a 6.4 per cent fall in first-half profits. It blamed the impact of the Asian crisis on DFS, its duty-free shopping chain which is focused on the Asia-Pacific region.

Gucci, the Italian luxury goods group quoted in New York and Amsterdam, reported a 9 per cent decline in first-half net profits. Its shares fell Fl5.20 to Fl70.80, after the Milan-based group blamed difficult international trading.

The gloom deepened after Coca-Cola summoned analysts to a briefing in New York today to discuss the impact of the economic turmoil.

Diageo said its core spirits and wines business had continued to perform strongly in Europe and North America. But in Asia, sales of Johnnie Walker Black Label premium whisky had fallen 40 per cent, while the standard Red Label version was down 50 per cent.

Analysts also reacted to the disclosure of sluggish sales in Diageo's Pillsbury food business in the US. Tougher competition in low margin products such as canned vegetables and cake mixes held sales growth back to 1 per cent.

Lex, Page 18
Gucci falls 9%, Page 22
LVMH sales decline, Page 22
Coca-Cola set to warn, Page 23
Diageo cost savings, Page 24

INSIDE

Telecom Italia holds strategy talks

Telecom Italia, the troubled telecommunications group, will today hold a critical board meeting in Rome at which it hopes to agree a new industrial strategy to tackle mounting domestic competition. After a year of constant upheaval, Gian Maria Rossignolo (left), chairman, is hoping that new plans can be approved to end severe attacks on his leadership. Page 22

Japan airlines speed revamp plans

All Nippon Airways and Japan Air System, two of Japan's largest airlines, accelerated restructuring plans. ANA sold two of its fully owned hotels in the US, while JAS cut executive and administrative salaries and stepped up its plan to eliminate 500 jobs. Page 21

Europe's bourses hit by profit fears

European share prices went into retreat as investors began to take more notice of the impact on corporate profits of the crisis sweeping financial markets. Euro Prices, Page 25

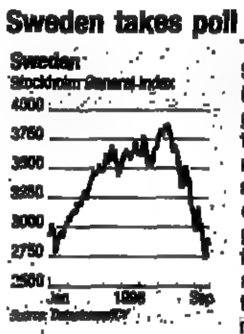
Ahmsa to develop Mexican mine

Ahmsa, one of Mexico's most debt-ridden companies, is planning to develop the country's largest iron ore mine in remote Santa Maria Zaniza in the mountains of the Sierra Madre Sur, as part of a wider $2.5bn project to turn southern Mexico into a steel hub. Page 23

Fruitful outlook for Dairy Farm

Dairy Farm, the Hong Kong-based retailer that is part of the Jardine group, looks set to survive the Asian crisis, having more than doubled net profits. Page 21

Sweden takes poll in its stride



The dismal showing for Sweden's ruling Social Democrats in Sunday's general election has left the country's stock market stirred, not shaken. The prospect of a weakened SDP government raised fears of share volatility and further pressure on the krona. Although the market has reacted adversely, talk of steep price falls and currency turmoil has proved exaggerated. Page 38

Ghana hopes for cassava boom

Ghana is on the brink of a cassava boom. A breakthrough into export markets has been made possible by the development of new high-yielding varieties of the root crop. Page 28

COMPANIES IN THIS ISSUE

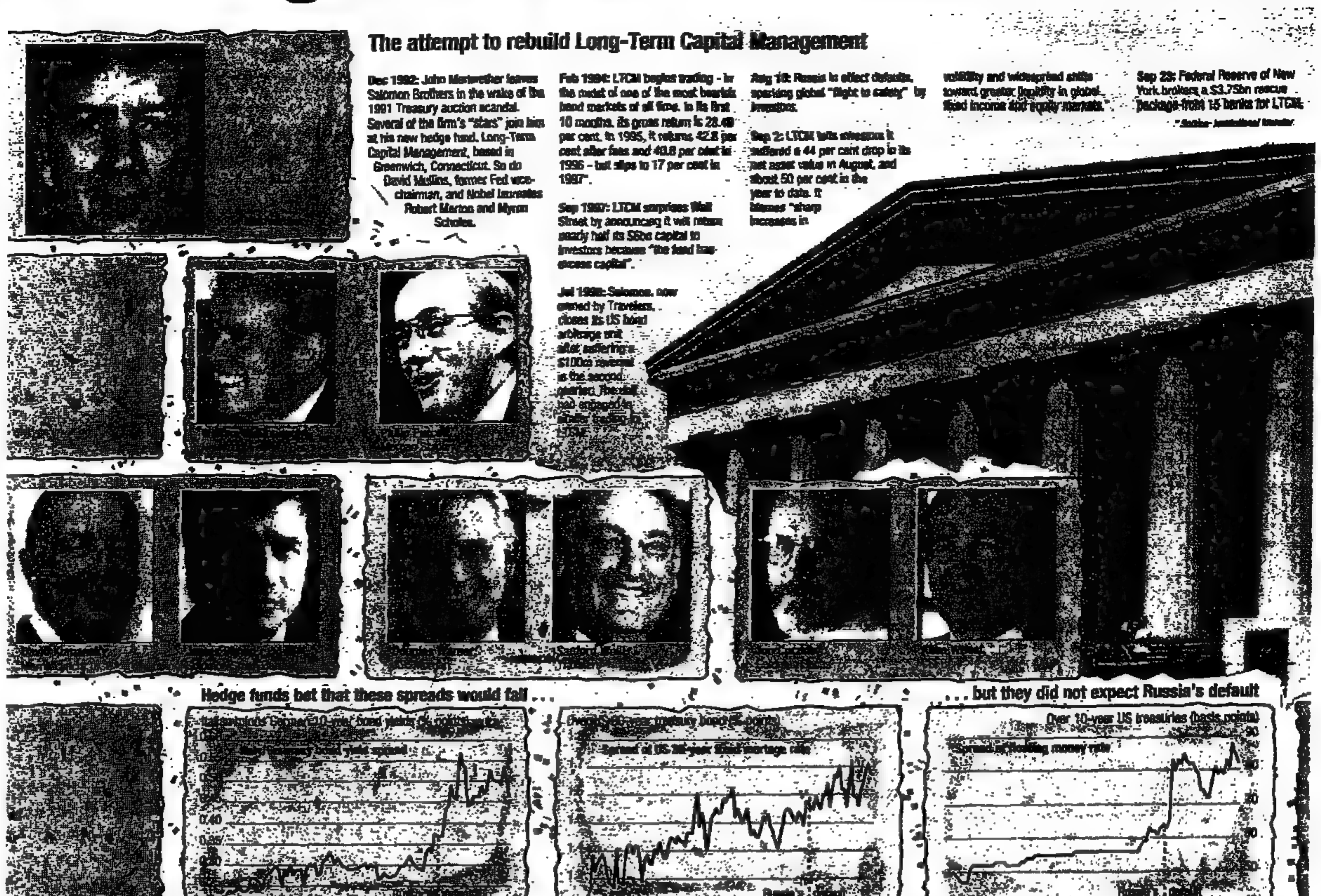
CROSSWORD, Page 28

MARKET STATISTICS

COMPANIES & FINANCE: BAIL-OUT FOR LONG-TERM CAPITAL MANAGEMENT

The fund that thought it was too smart to fail

For more than four years, John Meriwether's elite traders had made stellar returns. But when turmoil hit Russia, it led to disaster in Connecticut



The faces gathered around the table in the 10th floor boardroom of the New York Federal Reserve on Wednesday night were the elite of Wall Street. Few events are urgent enough to gather those such as David Komansky, chairman of Merrill Lynch, and Sandy Warner, chairman of J. P. Morgan, at a few hours' notice.

But this was exceptional. The men were here to rescue one of their own – and save themselves from the effects of one of the most spectacular financial collapses of modern Wall Street. For Long-Term Capital Management – the elite hedge fund with $80bn of assets – it was the moment of truth.

In the imposing fortress of the New York Fed building, with its wrought iron gates and stone façade, a working group of the leading Wall Street investment banks had struggled all day to persuade other institutions to contribute hundreds of millions of dollars. "Time was running out," says one person close to the talks.

For four years, LTCM had produced spectacular and consistent returns on its capital base of up to $7bn from its headquarters in Greenwich, Connecticut. The firm led by John Meriwether, one of Wall Street's legendary figures, had thrown down a gauntlet to Salomon Brothers, his old firm, and other financial institutions.

But that had ended abruptly in the wake of the economic collapse of Russia. Its complex mathematical bets on discrepancies in value among different bonds and derivatives had come spectacularly unstuck. Its capital had virtually been wiped out as it paid out billions in collateral on loss-making positions.

The near-collapse of LTCM had come as an enormous shock to the men around the table, whose investment banks had extended credit to the firm, and traded with it. Not only could they face losses from its collapse, but its defeat was potentially a defining moment for Wall Street in the 1990s.

If Mr Meriwether and a team of traders including two Nobel Prize winners, could fail, what would happen to the Wall Street firms that held similar positions in US bond and derivative markets? Several of them were also heavily exposed to its difficulties because they had lent it money, and traded with it.

The meeting at the New York Fed – one of the leading banking regulators in the US – had uncanny echoes of one at the Bank of England in February 1995. That was called in an effort to persuade British banks to contribute £800m to rescue Barings, the merchant bank that was in trouble in Singapore.

Yet unlike the Barings meeting, which ultimately failed in its effort to provide a cash lifeboat for the merchant bank, and find an investor to take on responsibility for loss-making derivatives positions, this one worked. The consequences of allowing LTCM to go down were ultimately too frightening.

Sitting round the table at the Fed were the best known and most powerful people on Wall Street. Apart from Mr Komansky and Mr Warner, Jon Corzine, joint chief executive of Goldman Sachs, and Sandy Weill, chairman of Travelers Group, the parent group of Salomon Smith Barney, were also there.

The atmosphere in the room was businesslike, but tense. "Nothing like LTCM Capital has been unwound before," says one person close to the hedge fund. "Many of the banks realised that if we went through a forced unwind of our derivatives positions, they might be taken down with us."

Such a threat was unimaginable only four years ago, when Mr Meriwether set up his fund in the leafy suburban town of Greenwich, Connecticut. In more ways than one, it was an escape from Mr Meriwether's roots on Wall Street, where he was a vice-chairman of Salomon Brothers until 1991.

By the time of his departure in the wake of a scandal over the rigging of the US Treasury auction by a Salomon trader, Mr Meriwether had become virtually a legend on Wall Street. He had pioneered a movement towards Wall Street firms trading with their own capital, using mathematical techniques.

When he formed his own firm – known on Wall Street as "Salomon North" because of its offices on the waterfront at Greenwich – Mr Meriwether not only took with him such star Salomon traders as Lawrence Hilibrand and Eric Rosenfeld, but recruited top-flight academics to carry out mathematical analysis.

Several of the the partners taught or were trained at the Massachusetts Institute of Technology; several others were at Harvard Business School. The most luminous of the bunch were Robert Merton and Myron Scholes, who won the 1997 Nobel Prize for economics for their pioneering work on option pricing.

From the start of its trading in Greenwich, LTCM marked itself out as different from other hedge funds. Investors had to put in a minimum $10m for three years without being able to withdraw their capital during that time. They were told very little about what would be done with it.

Although Mr Meriwether wrote periodic letters to investors outlining broad investment strategies, the detail was kept deliberately vague. Yet many private individuals and financial institutions flocked to place their money with LTCM, convinced by its extraordinary array of talent and experience.

These investors included not only millionaires drawn into the fund through the private banking arms of investment banks such as Merrill Lynch, but an array of state entities called "strategic investors". There were rumours that these included Asian financial authorities.

For a time, they were well-rewarded. An analysis of LTCM's investing record by Institutional Investor magazine in November 1996 found that Long-Term achieved an annualised 48.3 per cent return to investors in its first 31 months of operation. Its returns were unusually stable for a leveraged hedge fund.

LTCM achieved these returns through a series of investments that were of baffling complexity to an outsider. Using mathematical techniques pioneered by developers of option pricing theory including Scholes and Merton, it searched for small valuation anomalies in financial markets.

At Salomon Brothers, Mr Meriwether had used these techniques to arbitrage between the value of Japanese shares and convertible bonds and warrants in the early 1990s.

Convertible bonds issued by companies should have a precise relationship to the value of their shares because the bonds are convertible into equities.

However, the value would often drift out of line, and investment banks and hedge funds could make a profit by buying the instrument that was too cheap and going short of the one that was too expensive. They could only do this when they possessed the computer models to analyse price relationships.

LTCM built on this sort of relatively simple trade to bet on highly complex discrepancies in valuation. Using computer models, it could build portfolios of bonds and derivatives in which some types of risk were hedged – balanced out with other instruments – while others remained.

Most of LTCM's exposure was to markets in the US, Europe and Japan rather than in emerging markets. Its most common type of trading position was on so-called "credit spreads". This was a bet on an improvement or deterioration in the credit rating of an instrument such as an Italian government bond.

It might take a short position – in effect selling a security it did not own in the expectation of buying it later at a lower price – through the derivatives markets. The fund would at the same time take a balancing long position in US Treasury bonds or mortgage-backed bonds to hedge itself against market movements.

These are called credit spreads because the fund would be betting that the value of the securities it owned would rise, whereas the value of the shorted securities would fall, or at least stay the same. The spread – or gap in valuation – between the two securities would widen, bringing LTCM a profit.

In Europe many of its bets were on spreads narrowing between different types of European government bonds in the lead-up to European monetary union, and in effect were a bet on the successful launch of Emu. Traders say it profited hugely by taking positions on the Italian government bond spread, which narrowed dramatically against German government bonds.

It was also long on Danish mortgage rates and short on German government bonds, and took a large long position on Greek government bonds after that country joined the exchange rate mechanism in May. This was made in the expectation that bond yields would fall as the credit spread narrowed with other instruments.

During a bull market, which both the US and Europe enjoyed until recently, most of these trades bore fruit because credit spreads tended to narrow. As a result, LTCM became very profitable. It was making such high returns that its capital was increased by the inflow of cash to about $7bn last year.

Mr Meriwether was forced to take action to prevent it becoming a victim of its own success. He returned $2.7bn to investors to stop the returns falling as a result of having too much capital, leaving the partners with a higher proportion of its capital and making LTCM an even more exclusive club.

But this all changed abruptly this summer when the Russian government defaulted on its debts in August. Although LTCM is not thought to have been heavily exposed to Russian bonds – in proportion to its capital – credit spreads in all markets widened suddenly as investors poured money into safe instruments.

As a result, the spread of Italian government bonds over German government bonds widened dramatically. The same applied to US mortgage-backed bonds vis-à-vis US Treasury bonds, and almost every other of the huge trading positions that traders say that LTCM has taken during this year.

These effects were exacerbated by the huge degree of leverage that the hedge fund had taken on. Its capital base of $4bn after returning capital to shareholders had been leveraged through borrowings and the use of derivatives to much higher levels. Some estimates put LTCM's peak exposure at more than $100bn.

The fall in value of its positions would not have mattered so much had it not been for its use of derivatives. Investors that buy futures and options through exchanges or banks have to post cash daily to cover any paper losses. These "margin calls" protect exchanges from the risk of default.

As prices went awry, LTCM was forced to liquidate other assets in order to raise money for margin calls. The effect was devastating.

In a letter to investors on September 2, Mr Meriwether confessed that the fund had lost 44 per cent of its net asset value in August alone, and was now down to $2.3bn of capital.

"LTCM had a one-way bet on credit spreads continuing to improve," says Mark Turner, managing director of Schooner Asset Management in Boston. "This was naive to say the least, and it was naive of its creditors to act as counterparties to the deals. The market always takes a turn down sooner or later."

Despite the losses of August, partners of the firm remained convinced they would eventually be proved right. If they could obtain enough cash in the short term to meet margin calls and see off the immediate turmoil, they believed their portfolio of financial instruments would rise again in value.

"The firm had secure financing in place and as long as we could keep going, we knew that our positions would prove profitable," one person at the fund says. It began to sell out of its non-core positions to raise cash, but it continued to sit on the large positions it had built up in European government bonds.

After Mr Meriwether wrote to LTCM's investors in early September, the plight of the fund became one of the main topics of conversation on Wall Street. Not only were many Salomon people keenly interested in the fate of former colleagues, but regulators were becoming concerned about the risks.

As cash continued to flow out of the fund, depleting its capital day by day, Mr Meriwether and other executives at LTCM briefed securities regulators, including the Federal Reserve. They also started visiting Wall Street firms to see whether they could persuaded them to make fresh investments in the fund.

"Many appeared interested, and many at the fund were optimistic," says one person close to the fund. But as investment and commercial banks started to find and disclose their losses from the worsening market environment, "most of them decided they were better off circling their own tents," the person adds.

One banker said: 'Has this guy got any shame? He brings us all to the brink with his black box nonsense and then has the balls to say we did it to keep him in work. That guy is toast'

Talks continued, and were now being co-ordinated by the Fed, which was becoming increasingly concerned about the impact a liquidation of LTCM could have on the banks it regulates.

In Greenwich, the mood was growing increasingly sombre as it became clear that there might be no help at hand.

By Tuesday, the situation had become more urgent. Although LTCM drew some cash from Chase Manhattan Bank that day, it was clear that it would be unable to meet margin calls for much longer. The Fed, concerned at damage to the financial system that might result from liquidation, stepped in.

Some firms say the move was prompted by the increasing discomfort of Bear Stearns, the investment bank that acted as clearing agent for LTCM. While the Fed has no authority over hedge funds, it was concerned that the forced unwinding of LTCM's huge positions could have brought down another institution.

Until Wednesday morning, there were some alternatives. A morning meeting of banks was put on hold after Goldman Sachs decided to pursue the possibility of an investment by Warren Buffett, the legendary US investor, who is close to John Meriwether.

Maurice "Hank" Greenberg, of American International Group, is thought to have been part of another possible plan, and other investors, including Zurich Group, were sounded out by investment banks. In addition, an approach was made to George Soros, the hedge fund manager.

When the banks, the Fed and the fund reconvened at around 1pm that day, it was with a renewed sense of urgency. Among the key players in the discussions was Herb Allison, president and chief operating officer of Merrill Lynch, who drew up and presented the final rescue plan to bankers.

"By that time, nearly all of us realised that this was a deal that just had to be done," one person who was at the meeting says. After several hours, an agreement was struck among 15 financial institutions. The larger ones – such as Goldman and Merrill – would contribute $300m each, with smaller ones making up the rest.

In return for rescuing the fund in this way, the consortium gains management control of the fund, and 90 per cent of its portfolio. Some of the banks still hope they can recoup their full investment in the hedge fund, but whatever now happens, there is already soul-searching on Wall Street.

"When we extend credit to these types of funds, [we need to be] much more disciplined in requiring disclosure of how much exposure they have," says one senior banker. Historically, they have been unwilling to provide the information, and investment banks allowed them to retain a veil of secrecy.

They were enticed by the opportunity of lucrative business with hedge funds, which trade frequently and in large size, and often pay relatively high commissions for their trades, compared with other investors. "Hedge funds were a Wall Street dream, but the dream has turned into a a nightmare," says one banker.

However, Wall Street executives are sceptical about whether more regulation of hedge funds will result from the debacle – not least because there are turf wars in the US and internationally between regulators of securities firms and commercial banks over who should take charge of the issue.

A few of the Wall Street firms are also likely to take a hard look at the way they run their own operations. The large investment banks turned more and more towards proprietary trading using their own capital during the early 1990s, to make up for shrinking margins on customer business.

Yet many senior executives are now likely to ask themselves if they are taking similar risks to LTCM Capital, with even less chance of being able to control their mathematical whiz-kids on the trading floor. Salomon, now part of Travelers Group, recently announced plans to shut down its US bond arbitrage unit.

It is less clear that Mr Meriwether has drawn similarly sobering conclusions from the debacle. On Wednesday night, the statement announcing the rescue package included a statement from Mr Meriwether thanking the banking consortium that had saved him "for enabling us to be active in the marketplace".

Displaying the inner belief that kept them from liquidating their positions more quickly after the August losses, the firm looks like it will be back trying to raise new money from investors. "We are going to make some serious money going forward," one executive close to the fund said yesterday.

That attitude may not cut much ice on Wall Street. "Has this guy got any shame?" one banker said yesterday. "He brings us all to the brink with his black box nonsense and then has the balls to say we did it to keep him in work. That guy is toast."

Reporting by Tracy Corrigan and William Lewis in New York, and Christopher Brown-Humes, John Gapper, Clay Harris and Edward Luce in London.

AIRLINES JAPANESE GROUPS CUT COSTS

ANA, JAS accelerate revamp plans

By Alexandra Harney in Tokyo

Two of Japan's largest airlines yesterday accelerated restructuring plans launched earlier this year amid increased competition and a turbulent outlook.

All Nippon Airways (ANA), Japan's second largest carrier, sold two of its fully owned hotels in the US to Lowe Enterprises, the US property company for $270m, while Japan Air System (JAS), the number three, cut executive and administrative salaries and stepped up its plan to eliminate 500 jobs.

ANA said it hoped to gain Y5bn ($37m) from the hotels sale, which would be finalised by the end of the month. Management will be transferred from ANA Enterprises USA, a majority-owned ANA affiliate, to Destination Hotel and Resorts, the US group.

The group said it had no plans to sell its wholly owned hotels in Vienna or Sydney, or any of the 12 hotels and resorts it manages in Asia.

The sale is part of a five-year restructuring drive to cut costs and shed unprofitable assets. It marks the largest property sale in terms of price in ANA's history.

Last year, the airline had net losses of Y2.7bn against earnings of Y3.9bn a year earlier.

ANA's cost-cutting plan has been stymied by a pilots' union strike that cost it an estimated Y3.8bn. The dispute, which began in 1996, is still unresolved.

Meanwhile, JAS said yesterday it aimed to reduce expenses by a further Y1bn by the end of this year, mainly by lowering executive salaries 30 per cent and administrative payrolls 10 per cent from October. This almost doubles the salary cuts announced in March.

The airline, which has also had difficulties in talks with its workers' union, recorded losses of Y1.8bn on Y358.6bn turnover last year.

Deregulation, declining passenger volumes and increased price competition from Skymark, the industry's first new entrant in 35 years, have squeezed Japan's three established carriers – ANA, JAS and Japan Airlines.

ANA expects another year of losses, although JAS and JAL expect to be in the black this term.

DoCoMo price range confirmed

By Paul Abrahams in Tokyo

NTT DoCoMo, the Japanese mobile telecommunications group, yesterday confirmed that the price range of its share issue would almost certainly make it the world's largest ever initial public offering.

The indicative range for each DoCoMo share is Y3.3m-Y4.3m ($24,255-$31,618), valuing the issue at $13.2bn-$17.2bn.

After the issue, DoCoMo is expected to become Japan's third largest company by market capitalisation after NTT and Toyota, with a value of between $46.5bn and $60.6bn. The stock will account for about 3 per cent of the Topix index of all first-issue shares on the Tokyo stock exchange.

The range was wider than expected – 26 per cent – to reflect the volatile conditions in international markets. A number of recent share issues have been pulled, such as Uni Credito, a $5bn offering in Italy, and others have been postponed until markets recover.

Strong demand in pre-marketing helped push the range towards the higher end of expectations.

The company's earnings before interest, taxes, depreciation and amortisation have expanded at a compound annual rate of 40 per cent over the past three years.

The roadshow programme begins today in Tokyo. Two teams of executives, led by Kouji Ohboshi, chairman, and Keiji Tachikawa, president, will take a two-week tour of European and American financial centres.

European and American retail investors will need to be private clients of Goldman Sachs or apply for shares through Japanese brokers.

The joint global co-ordinators are Nikko Securities and Goldman Sachs. The book-building room is at Goldman Sachs' in Tokyo.

NEWS DIGEST

CARMAKERS

Daihatsu, Nichimen lift stake in Astra venture

Daihatsu Motor and Nichimen yesterday doubled their stakes in a car production joint venture with debt-ridden Astra International of Indonesia by pledging to inject Rp450bn ($40bn). Daihatsu raised its stake to 40 per cent and Nichimen to 10 per cent, leaving Astra with 50 per cent.

The two partners signed a memorandum of understanding to inject the cash into Astra, which owes more than $2bn to foreign banks and has stopped paying principal to protect its financial base. Sales of all Astra models have collapsed, with only 633 Feroza, Taft and comparable Daihatsu models sold in August, compared with 3,888 in the same month last year.

Rini Soewandi, Astra president director, said earlier this month that insistence on majority stakes in joint ventures had landed the company with too much debt.

Astra plans to submit a debt rescheduling proposal to its creditors by October and has invited Isuzu and Honda to increase their stakes in joint ventures.

Sander Thoenes, Jakarta

BANKING

Krung Thai to raise Bt185bn

Thailand's state-controlled Krung Thai Bank is set to raise Bt185bn ($4.6bn) with an issue of new shares, about Bt55bn more than expected. The issue is expected to be mostly, if not all, in the form of a debt-for-equity swap with the central bank, which recently forced Krung Thai to absorb two ailing lenders -- First Bangkok City Bank and the Bangkok Metropolitan Bank. The state, which already owns 70 per cent of Krung Thai, will end up with all but a small fraction of the equity.

The size of the recapitalisation underlined the Thai banking industry's need for fresh capital, said analysts. Local lenders have been severely hit by a rising tide of defaulting borrowers in an economy expected to contract by 7 per cent in GDP terms this year. Observers talk of the need for $30bn-$40bn in fresh capital. Krung Thai said the issue would raise Krung Thai's registered capital from Bt34.85bn to Bt219.5bn.

"It reduces the systemic risk, but existing shareholders get take a real thumping. The dilution is pretty massive," said Andrew Maule at ABN Amro Asia Securities.

William Barnes, Bangkok

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Fruitful outlook for HK's Dairy Farm

The retailing group looks set to survive the Asian crisis, writes **Louise Lucas**

Dairy Farm has a history of going against the flow, bringing milk to the supposedly lactose-intolerant Chinese in 1886 and, more recently, producing puny returns for investors when Asian stocks were rocketing.

The Hong Kong-based retailer, which is part of the Jardine group, is still moving against the herd – this time to the relief of its shareholders.

While the recently concluded interim reporting season in Hong Kong was one of big write-offs, shrinking profits and even losses, Dairy Farm more than doubled net profits and declared itself on the acquisition trail.

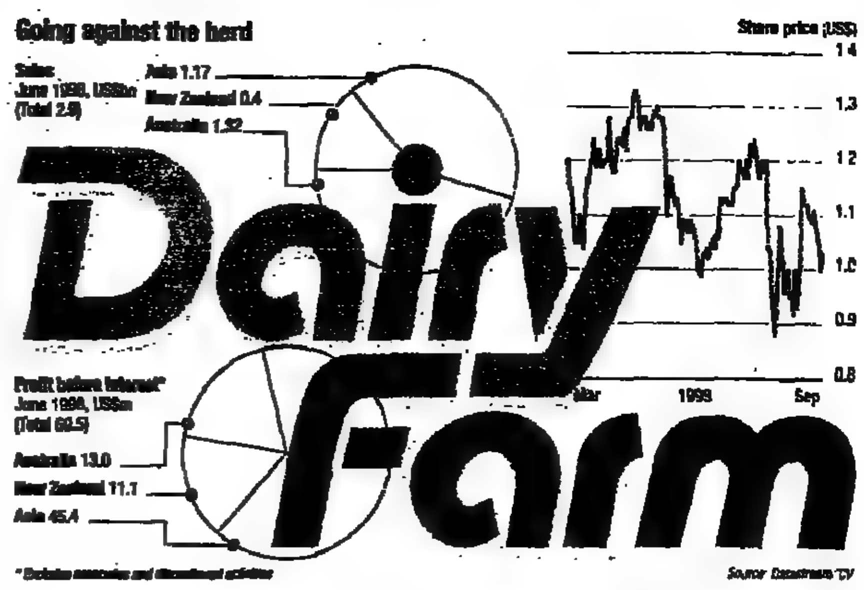
It is not, however, a renaissance: with recession deepening and unemployment rising, management sees tough times ahead.

"In the early stages, we have been picking the low-hanging fruit and it's going to get tougher rather than easier, particularly because of the economic conditions. Every one of our markets is troubled; that represents another challenge," says Ronald Floto, chief executive.

The "low-hanging fruit" refers to the disposal of European interests: Simago, the Spanish supermarket chain, and Somerfield/Kwik Save of the UK. It also includes drives for greater efficiency: a $40m central food processing centre in Hong Kong, and centralised sourcing and logistics for the four retail arms.

Still on the agenda are improving operating margins in Australia, teasing profits out of China, reformatting stores and achieving greater productivity in Hong Kong. It will also explore untapped countries such as Thailand, the Philippines and Korea.

But Mr Floto does not buy into the "conventional wisdom" that the Asian landscape is littered with bargains. He is not alone: analysts point to the massive premium paid this year by Tesco of the UK for Lotus of Thailand.



Source: Datastream/ICV

In any case, the first call on Dairy Farm's US$431m net cash pile is investment in existing businesses. After that, it will consider underperforming businesses it believes can be turned round.

Internal investment to date focuses on the central food processing centre in Hong Kong, which is due to open next month, and expansion of Mannings and Seven Eleven, its drugstore and convenience shop chains. Both increased profits in the first six months of the year.

The food processing centre, which will allow the Wellcome supermarkets to expand the range and quality of fresh, chilled and frozen foods, marks a sea-change, being Dairy Farm's first big non-store investment. But it is hardly pioneering.

Just as Franklins of Australia lagged behind its rivals in the fresh foods department, so Wellcome has lagged behind Hong Kong. For Wellcome, the oversight has been less costly: the local supermarket business is a forgiving one, with just two main chains carving up the market between them.

Analysts see little change to the duopoly in future: supermarkets are a location-driven business and both Wellcome and its rival Park'N'Shop benefit from having big property developers as stablemates.

This environment has allowed Dairy Farm to scoop margins estimated at over 5 per cent, which has deflected attention from productivity. That will change as Hong Kong enters an era of minimal inflation.

Beyond Hong Kong, Indonesia – Dairy Farm's first foray beyond greater China and Australasia – looks ill-fated. Three months after it paid US$36.4m for a 32 per cent stake in Hero Group, stores were torched and looted as mayhem spilt onto the streets. Seven stores are now shuttered.

Mr Floto describes Hero as "a first-class company with dominant market share in a market that's a shambles right now". Customers are eagerly buying whatever Hero can stock; the problem, he says, is filling the shelves: manufacturers, faced with rapidly rising costs, are reluctant to commit much in advance.

But as a small slice of Dairy Farm – it accounts for less than 3 per cent of assets employed – Hero is less of an issue than Franklins, where margins are a slim 1 per cent, compared with the 3 per cent plus creamed by its main rivals.

Franklins is not only a laggard in Australia, it also massively underperforms its Asian stablemates. While it accounts for 45 per cent of Dairy Farm's sales, it contributes just 13 per cent of pre-interest profit. In Asia, by contrast, the retailing figures are 40.6 per cent of sales and 45 per cent profit.

The supremacy of Asia in Dairy Farm's pared-down portfolio suggests that Mr Floto's high-hanging fruit will prove a tough harvest and a true test of management's mettle.

BANKING REDUNDANCIES REPRESENT BIGGEST CUTBACK BY A EUROPEAN BANK SINCE ECONOMIC TURMOIL BEGAN

Santander cuts 300 investment jobs globally

By Tom Burns in Madrid, Clay Harris in London and Louise Lucas in Hong Kong

Spain's Grupo Santander yesterday cut 300 investment banking jobs in Asia, New York and London, the biggest reduction by a European bank during the current spell of market turmoil.

Santander Investment, its investment banking arm, will now "focus its resources on southern Europe and Latin America".

The most dramatic withdrawal is from Asian equities, a business it entered only seven months ago with the purchase of parts of Peregrine, the Hong Kong investment bank which failed at the end of 1997.

Santander said there was "zero embarrassment" about its change of course, considering market conditions. "The [Asian equity] market is just dead," it said. "There is nothing going on. What six months ago looked like an interesting experiment now doesn't look like a reasonable business for us."

It added: "We took an opportunistic decision with Peregrine to enter a niche market, and neither the opportunity nor the niche exist at this point in time. We have taken a fast and efficient decision to concentrate on areas where we have a competitive advantage."

In addition to the 110 jobs eliminated in Asia, 130 will go in New York and about 60 in London, with equities bearing the brunt in both centres.

The fixed income side also suffered casualties although a presence will be kept in all three regions. Asian corporate finance also remains in place, and some strategists and macro economists have held on to their jobs.

In Hong Kong, where the bulk of the Asian jobs were lost, the bank said: "We still remain committed to Asia, because we plan to strengthen commercial banking activities here."

Investment banks' commitment to Asia is, however, beginning to ring increasingly hollow as market turnover remains weak and corporate finance activity offers slim pickings. With losses sustained from other emerging markets, including Russia, the pressure to cut costs is growing.

In Hong Kong, a second big wave of job cuts since the Asian financial crisis began in July last year is only just beginning to get under way. Last week, both Warburg Dillon Read and Nikko Securities (Hong Kong) announced reductions.

Santander branched out well beyond the reach of other Spanish institutions when it paid about $6.3m for Peregrine's London, New York and Singapore offices as well as staff in Hong Kong. It also assumed some liabilities, taking the total value of the deal to about $10m.

The move into Asia was an ambitious effort to establish an international equities distribution network to draw on the emerging market experience Santander had gained in Latin America where it has extensive banking assets.

Telecom Italia holds talks on new strategy

By James Blitz in Rome

Telecom Italia, the troubled telecommunications group, will today hold a critical board meeting in Rome at which it hopes to agree a new industrial strategy to tackle mounting domestic competition.

After a year of constant upheaval involving the management and strategy of the company, Gian Maria Rossignolo, chairman, is hoping that new plans can be approved to end severe attacks on his leadership.

Today's meeting, which will also approve the group's results for the first six months of this year, is unlikely to see another management overhaul.

There has been pressure on Mr Rossignolo in recent months to give up his powers to a newly created chief executive, but senior figures at the group say the issue will not be debated today.

Instead, the chairman's future appears to depend on whether today's board can come up with a credible strategy touching on Telecom Italia's international alliances and ambitions for technology development.

"This is not going to be a board that rubber-stamps the plan," said one senior figure in the group. "A debate will take place and will end with some significant decisions being made about the company's future."

The absence of a credible industrial strategy was strongly attacked by institutional shareholders earlier this year. A strategy is essential, because one of the group's main generators of revenue – mobile telephony – is certain to face intense competition now the market is gradually being liberalised.

Today's discussion will focus on relations with the UK's Cable and Wireless. Rumours of a possible purchase of C&W by the Italian group are now deemed to be off the agenda.

Instead, the board must decide how to structure a new operating company with C&W that would create the biggest global network after AT&T of the US. "We need to decide on what the structure of the company should be and who runs it," said a senior figure at Telecom Italia.

The group's technological ambitions also seem likely to be an important part of the strategy document. The group hopes to be a big provider of customised internet services to small and medium-size business around the globe.

The board is likely to approve a decision to resurrect the "Socrates" project to lay fibre-optic cable in Italy, although only to areas where there is an assured return on investment.

The board also looks set to resurrect plans for a city phone project called Dect, on which it has already spent L800bn ($480m).

Finally, it will try to resolve outstanding problems related to a bid by Rupert Murdoch to acquire a stake in Telecom Italia's multimedia subsidiary, Stream, which is expected to become a vehicle for a pay-TV platform broadcasting Italian football.

The bid is strongly welcomed by the Italian telecommunications group, but has been resisted by RAI, the Italian state TV network which also has a stake in Stream.

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Gian Maria Rossignolo: hoping for an end to attacks AP

Yukos to lose 30% of shares to banks

By Arkady Ostrovsky in Moscow

Yukos, one of Russia's largest oil companies, is looking to restructure the terms of the deal under which it has lost about 30 per cent of its shares to foreign banks.

Yukos's shares were pledged as collateral for a loan from foreign banks to Menatep, which is part of the same financial and industrial group as Yukos.

Western credit agencies suggested that Menatep, like many other Russian banks which have been hit by the government's default on short-term debt and the devaluation of the rouble, was unable to pay its debts. As a result, foreign banks ended up with a 30 per cent stake in Yukos.

Mikhail Khodorkovsky, the head of Yukos and the founder of Menatep, admitted yesterday he had lost his legal right to the shares. However, he has asked the foreign banks to "consult" with Yukos over the fate of the 30 per cent stake.

Under Russian law, any stake above 25 per cent gives the holder a blocking power and representation on the board.

"Theoretically, the foreign bankers, can tomorrow claim these shares, but all I am asking is that they talk to me and consider the interests of the company."

A pre-devaluation report by Brunswick Warburg, the Moscow-based broker, says that last year Yukos incurred pre-tax losses of $374m ($142m on comparable exchange rates). Losses for this year were estimated at $391m.

● Imatran Voima (IVO), the power generation arm of Fortum, the state-owned Finnish energy group, is to form a joint venture with Elsam, the Danish power utility, to break in to the newly deregulated German electricity market, writes Greg McIvor in Stockholm. The two companies said yesterday they were in negotiations with a number of large German industrial groups to supply electricity from next year.

Germany opened its electricity market to full competition in April. A number of foreign utilities, including Vattenfall of Sweden and Electricité de France are already established there. IVO indicated the joint venture would seek to undercut prices being offered by domestic German suppliers.

Kari Huopalahti, an IVO board member, said Nordic electricity prices were roughly half those charged in Germany. Finland, with Sweden and Norway, deregulated their power markets in 1996, triggering competition between suppliers and price decreases.

Deutsche Bank buys 4.5% of BCI

By Paul Betts in Milan and Tony Barber in Frankfurt

Deutsche Bank, Germany's largest, said yesterday it had bought a 4.5 per cent stake for L700bn ($420m) in Banca Commerciale Italiana (BCI), the Milan commercial bank traditionally linked with the influential financial network of Mediobanca and Assicurazioni Generali.

The surprise move by the German bank coincides with manoeuvres by Mediobanca, the secretive Milan investment bank, to revive a proposed merger between BCI and Banca di Roma.

It is also further evidence of the growing interest of German banks and insurance companies in the fast-consolidating Italian banking industry.

Deutsche Bank last night said it had bought the 4.5 per cent stake on the open market and from institutions because of BCI's "strong growth potential in one of the most dynamic European markets".

The acquisition makes Deutsche Bank the largest single shareholder in BCI after Generali, which has 5 per cent. Commerzbank, another German bank, owns a 3 per cent stake in BCI while Paribas, the French banking group, owns a 4 per cent stake. BCI in turn owns an 8 per cent stake in Mediobanca.

The acquisition will strengthen Deutsche Bank's already extensive presence in Italy, where it is the only foreign bank with a substantial retail network.

The German bank acquired Banca d'America e d'Italia in 1986 and Banca Popolare di Lecco in 1993. It has 260 branches in Italy and employs 4,800.

The German bank is also a core shareholder of Fiat and a member of the automotive group's shareholding syndicate.

The Deutsche Bank move was seen by banking analysts as adding a new dimension to manoeuvres over the future of BCI. Luigi Fausti, BCI chairman, has resisted attempts by Mediobanca and the investment bank's allies to force BCI into a merger with Banca di Roma.

Mr Fausti instead favours increasing BCI's presence in the richer north part of the country through mergers or acquisitions. Paribas has also opposed a BCI merger with Banca di Roma.

In the past few days there have been reports that BCI was considering teaming up with the recently combined Istituto San Paolo di Torino and IMI banking group.

Rainer Masera, chief executive of San Paolo-IMI, Italy's largest banking group, said yesterday his group was "open" to a hypothetical merger with BCI.

Asian crisis blamed for sales decline at LVMH

By Robert Graham in Paris

LVMH, the French luxury goods group, yesterday reported a 6.4 per cent fall in first-half profits, to FFr1.48bn ($262m), largely because of the impact of Asian turmoil on DFS, its duty free operations.

Though the drop in performance had been expected by analysts, the shares fell almost 5.2 per cent to FFr829 in a slack Paris bourse.

For the year as a whole, the group reiterated its July warnings, when first half turnover was revealed down 5 per cent at FFrs20.4bn, against FFr21.6bn in 1997. However, yesterday LVMH was more explicit, saying: "The group expects to post a decline in profitability for 1998 as a whole."

DFS, which LVMH bought at the end of 1996, has operations concentrated in non-Japan Asia and the Pacific. It suffered an operating loss of FFr236m. Apart from the decline in Asian tourism, leading to a 30 per cent drop in DFS sales, the duty free shops' performance was also affected by the depreciation of the yen against the dollar.

The Asian region, including Japan, accounts for 40 per cent of turnover. The company noted: "Though sales volume in Japan remains satisfactory, the economic situation in Asia was affected by the decline in the value of the yen." It went on to underline that new sources of uncertainty had emerged – notably in Russia and Latin America.

However LVMH, whose product lines include fashion goods, brand-leading Louis Vuitton luggage, perfumes and fragrances, champagnes and spirits, sought to strike a positive note. The group emphasised its aggressive strategy to offset the Asian-led slowdown.

This involved the launch of new perfume lines, development of already successful ready-to-wear clothing lines, and new store openings. The group also reiterated its confidence in the long-term growth in demand for LVMH products.

Income from wines and spirits rose 24 per cent, with the sharpest jump in champagnes and wines from FFr335m to FFr567m. Fashion and leather goods, which account for a quarter of sales, saw income virtually unchanged at FFr2.2bn. Rationalisation in the fragrances and cosmetics sector helped raise income to FFr116m from FFr48m.

The group is proposing an interim dividend of FFr6.30 a share.

Gucci falls 9% in first half

By Paul Betts

Gucci, the Italian luxury goods group quoted on the New York and Amsterdam stock exchanges, yesterday reported a 9 per cent decline in first-half net profits, to $82.15m on a 2 per cent rise in revenues to $487.6m.

Domenico De Sole, Gucci chief executive, said he was satisfied with the company's performance in the face of difficult international trading conditions.

Net income in the second quarter fell 7.6 per cent to $39m on a 5.9 per cent increase in revenues to $237m.

"We are very pleased with our strong financial performance during the second quarter," Mr De Sole said, adding the results reflected the continuing strength of the Gucci brand.

"During the quarter, we benefited from our strategy to increase local business, particularly in key European markets and Japan."

The company's store expansion programme remained on target and Mr De Sole said the strategy was to pursue property opportunities in markets that had sufferred from the economic turmoil in Asia, including Hong Kong, Hawaii and Japan.

Gucci has been at the centre of intense takeover speculation since Prada, the Italian fashion house, acquired a 9.5 per cent stake.

However, Prada has not increased its stake in Gucci since June.

Gucci said yesterday it had repurchased 643,500 of its shares in the second quarter and held in treasury about 2.3m shares at the end of July.

Polish telecoms deal in sight

By Christopher Bobinski in Warsaw

Telekomunikacja Polska SA (TP SA), the Polish telecommunications operator due to be privatised, says it will shortly sign a long-delayed interconnection payments agreement with the country's private mobile telephone operators.

"We will be signing this agreement soon," said Piotr Gawron, TP SA spokesman. The company was responding to criticism from mobile operators that talks had been dragging on the crucial issue of charges paid by new operators to the incumbent.

Failure to have the agreement in place before the sale of about 25 per cent of TP SA's equity later this year will damage the credibility of the company.

"We are a major client of TP SA and yet we get treated like a supplicant," said Wilhelm Stuckemann, technical director at Era GSM, jointly owned by Elektrim, the manufacturing conglomerate, US West and DeTeMobile from Germany.

Era's complaints are echoed by Plus GSM, which has brought together Poland's KGHM copper combine and the giant Plock refinery with Air Touch of California and TeleDanmark. After two years of operation, Era has more than 600,000 subscribers, and Plus more than 500,000.

The Polish government last year imposed an interim interconnection payments agreement on TP SA and the mobile operators which has still to be replaced by a formal deal. However, delays in the talks mean the mobile operators have speeded up installation of their own long-range networks. These can be used instead of TP SA's inter-city links.

"If we build our own, we can be responsible for the quality and availability of long-range connections," says Mr Stuckemann.

Era, which reported a $10m net profit for the first half of this year, is spending more than $20m on installing microwave and fibre optic systems to link 12 cities.

Plus is following suit. Both companies already make use of an alternative national fibre optic network put in place at a cost of around $110m by Tel-Energo, a company owned by the country's power generators, which is a shareholder in Plus.

NEWS DIGEST

FORESTRY PRODUCTS

EU demands concessions for Stora-Enso merger

Stora of Sweden and Enso, the Finnish forestry products group, yesterday faced the prospect of a further delay to their multi-billion-dollar merger after the European Union demanded concessions to win regulatory Karel Van Miert, EU competition commissioner, said he had sent the companies a list of objections to the tie-up, which would create the world's largest paper manufacturer. "I hope they will be able to come up with some ideas," Mr Van Miert said.

At the end of July, the Commission extended its routine, one-month investigation into the merger to a four-month inquiry, its move reflected concern over the dominance the combined group would wield over the European liquid packaging board, newsprint and magazine paper markets. Only about 10 per cent of merger investigations handled by Brussels go to this second stage.

The prospect of a delay hit the two companies' shares yesterday. Stora's most-traded A shares fell SKr6, or 6.7 per cent, to SKr83. Enso's R shares dropped FM1.20 to close at FM38.50 in Helsinki.
Greg McIvor, Stockholm and Neil Buckley, Brussels

CHEMICALS

DSM plans share buy-back

DSM, the Dutch chemicals and materials producer, is to buy back 7 per cent of its equity, in an operation costing Fl 392.4m ($206m) at current prices. The repurchase will counter dilution to its earnings from the 5.4m shares issued in the takeover this spring of Gist-Brocades, the biotechnology company. Of the 2.4m being bought back, most are to be converted into cumulative preference shares, for issue when the group needs future financing.

The shares closed Fl 3.20 higher yesterday at Fl 163.50, standing 18.5 per cent above their low point, reached on Monday. This came as DSM also forecast that operating profits would reach 1bn euros by 2002, on revenues of 10bn euros. The driving force would be the life sciences division, comprising Gist-Brocades and its own operations in fine chemicals, which would account for 30 per cent of group sales. As part of the expansion, DSM is considering building a new penicillin plant.
Gordon Cramb, Amsterdam

ADVERTISING

Publicis advances by 54%

Shares in Publicis, the French advertising company, rose 6.7 per cent to FFr950 yesterday, after it announced a 54 per cent rise in first-half net profits to FFr229m. The company said the rise signalled it was starting to reap the benefits of its aggressive international expansion strategy. It predicted "double-digit growth" for the full year, from acquisitions and organic growth in new markets.

"For the entire year, results should be very satisfactory, with double-digit growth," said Maurice Levy, chief executive. "Our worldwide expansion plan will soon be completed, a year ahead of schedule." Earlier this year, Publicis took over Hal Riney and Evans Group, two US advertising companies, and established for the first time new operations in South America (Chile) and Asia (Thailand, Vietnam, Laos, Cambodia and Burma).

Publicis also won new global accounts from Club Med, the French leisure group, UBS, the bank resulting from the merger of Swiss Bank Corp and Union Bank of Switzerland, and Hewlett-Packard, the US computer-maker.
Samer Iskandar, Paris

ELECTRONICS

Bull issues profit warning

Bull, the French electronics maker, warned last night it would not match last year's net profit of FFr603m ($107m) this year because of a FFr1bn staff redeployment and training programme this year and next. Guy de Panafieu, chairman, said profit growth would resume next year.

Bull is targeting an operating profit of FFr1bn in 1998 and sales growth of 5 per cent. In July it reported a first-half loss of FFr353m, compared with a FFr64m net profit a year earlier.

Operating profit was FFr104m in the period, down from FFr196m. **AFX News, Paris**

BANKING

BBV acquires Midas

Banco Bilbao Vizcaya, the Spanish banking group, has acquired 100 per cent of Midas Investimentos, a leading Portuguese stock brokerage and fund manager, as a step towards a substantial expansion of its operations in Portugal. Midas, an independent investment house owned by five managing partners, is expected to be expanded into the corporate finance and investment banking arm of BBV in Portugal, which already operates a commercial banking network in the country.

The management team at Midas, seen as one of its most valuable assets, is to stay on as part of the deal, the first acquisition of a Portuguese brokerage by a foreign company. BBV, which is acquiring Midas through BBV Interactivos, the group's brokerage division, is focusing overseas expansion on southern Europe after completing an investment programme in Latin America.
Peter Wise, Lisbon and David White, Madrid

INDUSTRIAL HOLDINGS

CGIP announces share split

Compagnie Générale d'Industrie et de Participations, the French industrial holding company, yesterday announced a 10-for-one share split ahead of the redenomination of its shares in the single European currency next January.

The group, headed by Ernest-Antoine Seillière, who is also chairman of the French employers' federation, CNPF, said its FFr1bn ($177m) share buy-back this year had helped to support its share price. Net profits in the first half were up 159 per cent at FFr1.59bn, including a capital gain from the sale of a 5 per cent stake in Crown Cork and Seal, the US packaging company. Proceeds from the disposal were used in the share buy-back.

CGIP shares closed unchanged at FFr2,400, outperforming the Paris Bourse's benchmark CAC 40 index, which fell 1.25 per cent. **Samer Iskandar**

AIRCRAFT

Saab cuts 475 jobs

Saab, the Swedish aircraft and defence group, yesterday issued redundancy notices to 475 workers as part of its decision, announced last year, to withdraw from civil aircraft production. The company said it was offering alternative jobs or retraining to other members of its 1,800-strong workforce in regional aircraft. Saab is to cease producing regional aircraft from mid-1999. **Greg McIvor**

SOFT DRINKS US GROUP TODAY EXPECTED TO SAY PROFITS AND VOLUMES WILL BE LOWER THAN FORECAST

Coca-Cola set to warn on third quarter

By Richard Tomkins in New York

Coca-Cola is today expected to warn that third-quarter volume and profits will be weaker than previously thought, casting further gloom over the outlook for once high-flying consumer stocks.

The US soft drinks group has called Wall Street analysts to a rare meeting in New York at which it will offer its first detailed analysis of the effects of global financial turmoil on its business.

The meeting comes shortly after warnings from two other US consumer product groups. Last week Gillette said third-quarter sales would be down, and the week before, Procter & Gamble said third-quarter profits would be lower than expected because of flat sales.

Coca-Cola said the meeting would be addressed by Douglas Ivester, who took over as chairman and chief executive on the death of Roberto Goizueta last October, and James Chestnut, chief financial officer.

"We are going to talk about volume and earnings for the third quarter, and we will probably look at full-year expectations," the company said.

"Obviously, there is a lot of interest in how the global economic situation is affecting our volume, so we will be updating people on that, and no doubt there will be a lot of questions about next year from the analysts."

Coca-Cola would not say what guidance analysts would be given, but said it would express its "commitment and belief in the long term".

Even before the meeting takes place, analysts have been downgrading their volume and profit forecasts for the company. Andrew Conway of Morgan Stanley said he now expected Coca-Cola's volume to grow only 6 per cent next year instead of the 8 per cent he had forecast.

Mr Conway also made a further cut in his earnings forecast for this year, reducing it from $1.56 a share to $1.55, and cut his forecast for next year from $1.76 a share to $1.71.

According to the First Call research service, the consensus forecast for Coca-Cola's earnings per share this year has slipped from $1.70 at the beginning of January to $1.57 by Wednesday this week.

The share prices of big consumer product groups have plunged in the past few weeks amid a reappraisal of their global growth prospects.

Coca-Cola's shares, which once seemed on an unstoppable climb, have plunged more than a third since hitting a peak of $88⅞ in July. Yesterday they were down $1⅞ at $57 in early afternoon trading.

Mexican steel move shows poor timing

Indian villagers are not the indebted company's only obstacles, writes **Henry Tricks**

A remote Indian village in the pine-covered mountains of the Sierra Madre Sur may hold the key to the future of Mexico's steel industry.

In Santa Maria Zaniza, Ahmsa, one of Mexico's most debt-ridden companies, is planning to develop the country's largest iron ore mine as part of a $2.5bn project by its parent company to turn southern Mexico into a steel hub.

It is no easy task. Villagers, Zapotec Indians with a history of isolation some seven hours by dirt road from the nearest city, would not let Ahmsa geologists in for months, after years of abuse by logging companies.

When mining executives had negotiated a toehold, they made the mistake of discussing digging – a word that in Spanish translates as "explotación" (exploitation). That was almost the last straw for the Zapotec community.

"The word exploitation is almost satanic for them. It took a lot of explaining," said Eduardo Holguin, minister of economic development in the state of Oaxaca where the "Tehuantepec" steel project is planned.

Ahmsa has since established itself in Santa Maria Zaniza and it says it has proven some 180m tons of reserves of iron ore, with a high average mineral grade around 55 per cent. It aims to produce 6m tons of iron ore a year, twice that of other Mexican mines, and estimates total potential reserves of 300m tons.

But industry analysts are puzzled why the owners of a company with some $1.8bn of debt would launch such a bold scheme at a time when global steel prices have plummeted worldwide and margins are under pressure.

The project is in the hands of the family-owned holding company, Grupo Acero del Norte (Gan), which has sought to emphasise that Ahmsa's role is simply to provide iron ore and technical expertise to a steel mini-mill Gan plans to build in the port of Salina Cruz, on the Oaxaca coast.

Xavier Autrey, Gan chairman, says the mine will be able to provide the ore at low cost, propelled by a 175-mile water pipe from Zaniza to Salina Cruz. That made the project feasible. He added that Gan was canvassing for foreign partners to help build the steel plant, and aims to use the partnership to secure a project finance arrangement for funding.

"Ahmsa is not going to ask for any additional loans for this project," he said. "We don't want Ahmsa to be confused with Tehuantepec."

But the timing has raised eyebrows. Weak steel prices have forced Ahmsa to lay off 3,000 workers in the northern state of Coahuila, where it is headquartered. Mr Autrey noted that those workers were to have been transferred to Oaxaca for the Tehuantepec project, but the company ran out of time.

In June, Ahmsa was also forced to renegotiate debt service covenants with a loan syndicate led by Morgan Guarantee Trust of the US, after interest coverage ratios dipped below a previously agreed level last year.

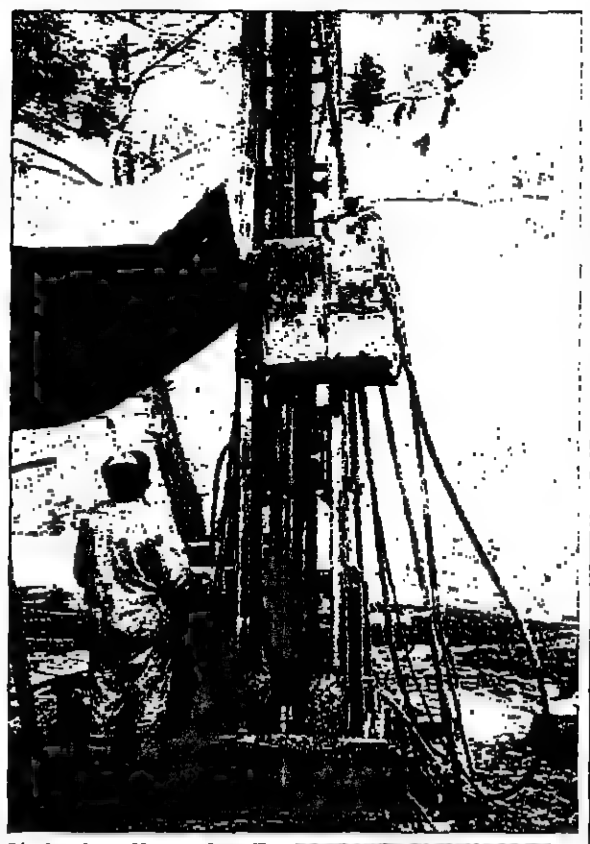
"The big question is what is going to happen with Ahmsa itself because its leverage levels are quite high now," said Mauricio Reveco, analyst at Salomon Smith Barney in New York. "You have the biggest steel company in Mexico with a lot of investment to improve production at a time when international steel markets are in a volatile situation, creating higher risks and margin compression."

Plans for the Tehuantepec scheme are advanced, however, and Mr Autrey expects it to get under way within the next year. The mini-mill would produce hot-rolled products or steel slab with direct reduced iron technology that the group has never previously used.

The $1.8bn plant is expected to produce 4m tons of steel a year, to be shipped at a low average cost of $9 a ton. It would be powered by a thermoelectric plant, to be built at a projected cost of $420m adjacent to the Pemex oil refinery in Salina Cruz, using oil residues from Pemex.

GAN said the project would provide direct employment for 3,000 workers and 15,000 related jobs in Oaxaca.

In Santa Maria Zaniza, where decisions are taken communally by some 500 adult males, locals say there are deep divisions over the project. Mine executives say it will eventually involve relocating the centuries-old town and diverting the river that runs through its balmy banana plantations.



Digging deep: Ahmsa mine will mean relocation for ancient town

Whether they can stop the march of industry is doubtful. The mine already provides work for 40 townsmen, some of whom would otherwise illegally head to the US.

And on the door of one house, an Indian child had chalked the picture of the Ahmsa helicopter that flies in each day. That suggested the modern world had already taken root.

Fund growth predicted to slow

By Edward Alden in Toronto

Growth of assets in the Canadian mutual fund industry is likely to slow substantially over the next decade, but should still rise five-fold by 2008, according to a survey by Ernst & Young, the accountant.

It predicts that Canadian mutual fund assets will grow to C$1,500bn (US$984m) in 10 years as an ageing population and higher savings rates continue to produce a large pool of funds chasing greater returns.

While Canada has seen a boom in mutual fund investing over the past decade, with about 38 per cent of households now holding funds, the levels of investment still lag behind those in the US. The average mutual fund-owning household in Canada has a C$73,000 portfolio, less than half the average south of the border, but a higher Canadian savings rates should narrow that gap, the survey says.

"There's a whole lot of catching up still to come," said Colin Deane, its author.

He predicts that mutual fund assets will grow 16-17 per cent annually, about half the growth rate of the past decade, when falling interest rates led many Canadians to pull out of fixed-income investments in favour of stock market holdings. Canadian mutual funds saw explosive growth over that period, rising from just C$24bn in assets in 1990 to more than C$320bn currently.

Mutual fund holders have so far not quit the market despite the 20 per cent decline in the Toronto Stock Exchange since its April high. But new sales of funds have slowed sharply from last year's record pace.

The Ernst & Young study assumes annual investment returns of around 7 per cent, compared with 9-10 per cent over the last decade. The survey also assumes a low inflation environment.

But Dan Richards of Marketing Solutions in Toronto, a consulting firm that tracks consumer sentiment towards mutual funds, said predictions about future growth could be shattered overnight by higher interest rates or a prolonged bear market.

The lack of a panicked flight from mutual funds may be due to increased investor sophistication, but more likely reflects the simple lack of alternatives, he said. When interest rates spiked up in 1994, for instance, there was substantial redemption out of equities and into fixed instruments.

Centeon to resume making 'medically necessary' items

By Victoria Griffith in Boston

Centeon, the Pennsylvania-based joint venture between Rhône-Poulenc and Hoechst, announced yesterday that it was planning to restart manufacturing of "medically necessary" products – as determined by the US Food & Drug Administration – in late October.

Shares in Rhône-Poulenc surged 7 per cent on the Paris bourse on the news. Hoechst shares were down DM1.20 at DM68.5.

Centeon had shut down its US operations in mid-August, after FDA inspectors failed to see enough progress in bringing the company's manufacturing practices up to standard. Shares in Rhône-Poulenc had fallen sharply last week after news about the August closure leaked out.

The FDA has been concerned about the facility's hygiene standards since 1996. Centeon decided it was easier to cease manufacturing altogether to modernise its factory rather than make changes during production. The FDA has said the company can continue to manufacture "medically necessary" products while factory improvements are made.

Under dispute is the future of Albuminar, a blood plasma product used for trauma victims. Centeon would like Albuminar, one of its leading products, to be included under the definition of "medically necessary". Currently under the definition are the company's two clotting agents for haemophilia and immunoglobulin, used in treatment of immunodeficiencies.

Including Albuminar, "medically necessary" products account for 31 per cent of Centeon's total sales. The company also has plants in Germany, Austria and Spain, which account for about 60 per cent of total production. Centeon's manufacturing tie-ups in the US have sparked an ongoing lawsuit by Astra over the company's failure to fulfil supply contracts.

Because of a shut-down in the US plant, Centeon will record an operating loss in 1998. Centeon said it did not know when it would fully re-open its production. The company plans to announce the final outcome of its negotiations with the FDA shortly.

KSB to boost US presence

By Peter Marsh in Mannheim, Germany

KSB of Germany, Europe's second-biggest pump maker, is considering spending up to DM800m ($474.2m) on acquisitions in the next year, mainly to boost its presence in the US.

Josef Gerstner, chairman, said he aimed to expand the company's annual revenues worldwide by roughly DM1.5bn within the next five years, mainly through acquisitions. Such a move would mean KSB overtook ITT of the US as the world's biggest pump maker.

Last year KSB had sales of DM2.1bn, achieving pre-tax profits of DM73m.

KSB's expansion plans follow its return to financial health after the 127-year-old company made a loss of DM54m in 1995. That led to a big programme of plant closures and job losses.

Mr Gerstner said in an interview with the Financial Times that a priority was to boost sales in North America, where last year revenues came to only DM120m. The company wants to increase this tenfold in the near future, with the extra revenue coming mainly through acquisitions. He declined to say which companies he was looking at.

The US is the world's biggest market for pumps. World sales are about DM30bn. Companies with a strong presence include Ebara of Japan and also Grundfos of Denmark – Europe's second-biggest pump maker and the world's second in this industry.

Mobil Canada invests C$4bn

By Scott Morrison in Toronto

Mobil Canada, a subsidiary of the US oil producer, has said it will invest up to C$4bn (US$2.6bn) over the next five years to explore, develop and operate offshore energy projects along Canada's eastern coast.

Mobil, which in the past decade has spent C$2bn on exploration and development in the region, said the additional investment enhances the company's leadership role in Atlantic Canada's burgeoning energy industry. The region has become one of Mobil's most important growth areas, said Kenneth Miller, senior vice president for eastern Canada.

Mobil is the lead partner, with a 33 per cent stake, in the Hibernia production project, an oil field located in the Grand Banks region, about 300km east of St John's, Newfoundland. Hibernia, with estimated reserves of 750m barrels, first pumped oil last November and currently produces about 100,000 barrels a day. Project officials expect to increase output to 135,000 b/d early next year.

Mobil has a 22 per cent interest at nearby Terra Nova, the region's second offshore oil project which is scheduled to begin producing by 2001. In the province of Nova Scotia, Mobil has a majority interest in the Sable Island project, which is scheduled in late 1999 to begin producing natural gas for markets in eastern Canada and north-eastern US states.

Industry leaders suggest the Atlantic region will produce about 40 per cent of Canada's crude oil supply by 2004. Equally encouraging is the potential of offshore natural gas reserves, which preliminary surveying indicated could reach 62,000bn cu ft, according to Stephen Henley, president of Newfoundland Offshore Industries Association, an energy trade group.

NEWS DIGEST

INVESTMENT BANKING

Morgan Stanley sees result fall by 5%

Morgan Stanley Dean Witter, the US investment bank and brokerage, yesterday reported a 5 per cent fall in net profits to $645m in its fiscal third quarter to August 31, but said some market sectors were thriving despite volatility.

Bob Scott, chief financial officer, said the company had successfully managed its risks amid recent market turmoil and was "not contemplating any lay-offs or action like that". Mergers and acquisitions business had done particularly well in the quarter, Mr Scott said, "and we anticipate having a strong fourth quarter in M&A as well".

The company warned earlier this month that its third-quarter net profits had been reduced by $110m because of losses associated with difficult conditions in global markets. It said the losses occurred in certain credit-sensitive activities and in connection with an institutional leveraged emerging markets debt portfolio.

After a $14m pay-out of preferred stock dividends, net profits of $631m translated into earnings per share of $1.05, down from $1.09 a year earlier but ahead of the $1.03 forecast by analysts.

Investment banking revenues totalled $819m, helped by record levels of M&A activity, which offset a decline in underwriting revenues. The figure was just ahead of the year-earlier figure of $818m, but down from $968m in the second quarter. In trading and investments, equity trading and foreign exchange performed strongly and commodities had record results, but fixed-income revenues were hit.

Trading revenues of $499m were 36 per cent below the prior year's level and 54 per cent below the previous quarter's. Investments produced a loss of $174m against revenues of $101m a year earlier and revenues of $206m the previous quarter.

Richard Tomkins and Tracy Corrigan, New York

MEDICAL EQUIPMENT

Boston Scientific shares slide

Shares in the medical device company Boston Scientific fell 5 per cent in early trading yesterday as analysts predicted earnings would fall about 5 cents below expectations after bad news on the group's new stent product.

Some of the balloons in Boston's new NIR stent, approved by the FDA in August, have apparently developed pin holes. Stents are small wire-mesh tubes used to prop open arteries during surgery. Boston has been relying on them for its growth. Earlier this year, the company paid $2.1bn for Schneider, a Pfizer unit specialising in stents. The company also blamed a poor second-quarter showing – with profits of $79m, compared to $90m last time – on its meagre presence in stents, and said its second half would be better after its NIR stent went on the US market.

Some analysts believed the market's reaction to the NIR stent news was overblown. "They have an alternative NIR stent, that can be used without balloons," said Vivian Wohl, an analyst at Merrill Lynch. "It's not a big deal, but the market is so nervous in general, any bit of bad news can make a difference." **Victoria Griffith, Boston**

PUBLIC NOTICES

NOTICE PUBLISHED BY THE SECRETARY OF STATE UNDER SUBSECTIONS 8(5) AND 10(6) OF THE TELECOMMUNICATIONS ACT 1984

The Secretary of State hereby gives notice as follows.

1. He proposes to grant a licence under the Telecommunications Act 1984 ("the Act") to Level 3 Communications Limited, ("the Licensee"), to run telecommunication systems throughout the United Kingdom. The licence will be for a period of twenty-five years, subject to earlier revocation in specified circumstances.
2. The principal effect of this licence will be to enable the Licensee to install and run telecommunication systems throughout the United Kingdom. The Licensee will be able to provide a wide range of services but excluding mobile radio services and certain international services. The licence authorises connection to a wide range of other systems, including earth orbiting apparatus, allowing the provision of some types of international satellite service.
3. The licence will be subject to conditions such that section 8 of the Act will apply to it, thereby making the system run under the licence eligible for designation as a public telecommunication system under section 9 of the Act. It is the intention of the Secretary of State to designate the Licensee's system as a public telecommunication system.
4. The Secretary of State proposes to grant the licence in response to an application from the Licensee for such a licence because he considers that it will help to satisfy demands in the United Kingdom for the provision of services of the type authorised, will promote the interests of consumers in respect of the quality and variety of such services, and will maintain and promote effective competition between those engaged in the provision of telecommunication services.
5. He proposes to apply the telecommunications code ("the Code") to the Licensee subject to certain exceptions and conditions throughout the United Kingdom. The effect of the exceptions and conditions to the application of the Code is that the Licensee will have duties,
   (a) to comply with various safety and environmental conditions, in particular (with certain exceptions) to install lines underground or only on such above-ground apparatus as is already installed for any purpose;
   (b) to comply with conditions designed to ensure efficiency and economy on the part of the Licensee, in connection with the execution of works on land concerning the installation, maintenance, repair or alteration of its apparatus;
   (c) to consult certain public bodies before exercising particular powers under the Code, including the local planning and highway authorities and English Nature, Scottish Natural Heritage, the Countryside Council for Wales, the National Trust and the National Trust for Scotland, as well as relevant electricity suppliers;
   (d) to keep and make available records of the location of underground apparatus and copies of the exceptions and conditions in its licence to its powers under the Code, and
   (e) to ensure that sufficient funds are available to meet certain liabilities arising from the execution of street works.
6. The reason why the Secretary of State proposes to apply the Code to the Licensee is that it will need the statutory powers in the Code to install and maintain the telecommunication system which is to be installed and run under the proposed licence.
7. The reasons why it is proposed that the Code as applied should have effect subject to the exceptions and conditions referred to above are that they are considered requisite or expedient for the purpose of securing that the physical environment is protected, that there is no greater damage to land than necessary, that the systems are installed as safely and economically as possible, and that the Licensee can meet (and relevant persons can enforce) liabilities arising from the execution of works.
8. Representations or objections may be made in respect of the proposed licence, and the application of the Code to the Licensee and the proposed exceptions and conditions referred to above. They should be made in writing by 26 October 1998 and addressed to the undersigned at the Department of Trade and Industry, Communications and Information Industries Directorate, 2.80 Grey, 151 Buckingham Palace Road, London, SW1W 9SS. Copies of the proposed licence can freely be obtained by writing to the Department or by calling 0171 215 1756.

Alan Proud
Department of Trade and Industry
25 September 1998

TELECOMMUNICATIONS PIONEER SEEKS INVESTOR BEFORE JANUARY WHEN FUNDS ARE EXPECTED TO RUN OUT

Ionica fights to avoid bankruptcy

By Alan Cane

Ionica, the Cambridge-based company that pioneered fixed radio access telecommunications in the UK, faces bankruptcy early in 1999 unless it can find a strategic investor.

It would be a spectacular failure. Ionica raised more than £100m ($168m) from private investors as a start-up and was valued at £640m when it floated a year ago. Last night the shares closed at 22p.

Yesterday it said it was in discussions with a potential investor but could not guarantee a successful outcome.

Ionica had developed, in conjunction with Nortel of Canada, a way of bridging the "last mile" between telephone exchange and home or office with radio. It expected good business from licensing the technology abroad, and found ready finance through high yield or junk bonds.

But it attempted to expand too quickly and slipped behind its business plan when software difficulties prevented it meeting demand in key areas.

At the end of June, it had only 50,800 subscribers compared with the 195,000 estimated by the end of this year in its business plans. Sales overseas were slower than expected.

Ionica refused to say yesterday whether its potential partner was interested in the company as a going concern or as a source of an innovative technology.

Operations are being financed from residual cash from the flotation in July 1997. "At current rates of expenditure, the group has sufficient funds to finance these operations until approximately January 1999," it said.

Preliminary results for the year to March 31 and for the three months ended June 30 this year were issued last night after the markets closed.

Turnover in the year to March 31 1997 improved to £11.6m from £2.6m the year before. Operating costs, however, rose to £168.2m from £59.8m in the same period and interest on two high yield bonds issued in 1996 and 1997 rose to £21.3m from £5.2m. The retained loss for the year was £173.2m compared with £43.9m for the previous 12 months. The loss equated to 114.73p a share.

The company said it had invested about £329m to develop its fixed radio access technology and roll out the beginnings of its national network. It expects to have significant capital requirements for the foreseeable future and to generate operating and net losses.

Last week Nortel began to shut down its UK fixed radio access operations, partly because of Ionica's difficulties.

Cracks appear as ICI works to patch up its debt

The global downturn in sales and market turbulence have upset the chemicals group's plans for financing, says **Jenny Luesby**

There is never a good time to be deep in debt and suffering a sharp fall in income, but Imperial Chemical Industries is discovering that now is definitely a bad time.

With the UK economy slowing, world stock markets on a knife edge, and the chemicals industry facing global recession, it is running out of palatable ways of meeting its commitments.

Its debt, taken on last year to finance the £4.9bn ($8.23bn) acquisition of Unilever's speciality chemicals business, was supposed to have been repaid at speed: the group promised to raise £3bn by selling its mature and cyclical industrial chemicals businesses. But since then it has suffered multiple setbacks.

The £445m sale of its titanium dioxide business to DuPont, announced 15 months ago, remains under investigation by the US competition authorities – despite the disposal of parts of the business to third parties in an attempt to hasten its approval. Another £120m sale, of ICI's Pakistani polyester operation, has been delayed by a protracted legal process. And the disposal of Crosfield for $455m to WR Grace of the US has also been drawn into a competition investigation.

Meanwhile, there has been a sudden deterioration in ICI's main markets.

The company sells more than 10 per cent of its output in Asia. It also continues to be a large producer of industrial chemicals and materials such as polyurethane and acrylics, which have suffered from the Asian downturn.

At the same time, the speciality chemicals business on which ICI intends to focus – acquired largely from Unilever – has not performed as well as was hoped, according to analysts including Merrill Lynch. The technological edge and niche markets enjoyed by speciality chemicals have traditionally delivered stable demand and prices. But fierce undercutting by speciality chemical companies like Clariant has hit the sector so hard that in the US p/e ratios have fallen across the sector, as analysts have downgraded their view of its outlook.

In ICI's coatings business Asian growth has evaporated and the group has become embroiled in a bitter price war with Sherwin Williams, its US rival.

Taken together, these developments represent quite a hammering – where

In its coatings business Asian growth has evaporated and it is embroiled in a price war

analysts' forecasts of ICI's pre-tax profits for this year were running at £1bn a few months ago, the consensus range is now £300m-£350m.

At this level, despite £4bn of agreed disposals, interest cover is "dangerously low", say two of the sector's top analysts. Indeed, the covenants attached to the five-year syndicated loan that ICI took out to finance the Unilever acquisition dictated interest cover from this summer of 2.25 times. Sutherlands is one of many brokers which estimates that interest cover is instead hovering at, or below, 2 times. In fact, ICI foresaw this problem. It refinanced the loan at the end of last year, because the covenants were "too restrictive". Its new debt is no longer tied to any performance conditions, it says.

This has allowed it to continue making acquisitions despite the downturn: two deals announced in May will cost a further £700m.

At the end of the first half, the group's net debt was equivalent to 1,550 per cent of shareholders' funds. This figure is distorted by the large goodwill write-downs that have accompanied ICI's acquisitions. Without these gearing would be about 100 per cent. On the basis of consensus forecasts of profits and estimates of the group's interest and tax charges, it now seems as if ICI's dividend would be uncovered this year, and maybe also next year, if it were maintained.

Finally, ICI's cash flow is negative. In the first six months of this year, cash flow before financing amounted to an outflow of £657m. ICI is addressing this. Chemicals buyers in the UK report that the company, which has traditionally taken a passive approach to marketing, began cold-calling rivals' customers this summer and cutting prices.

The group is promising debt reductions next year through the disposal of its remaining industrial chemicals businesses, which have sales of £2bn. However, the three parties known to be interested in buying these businesses – BP and two venture capitalists – have all departed and finding new buyers may not be easy.

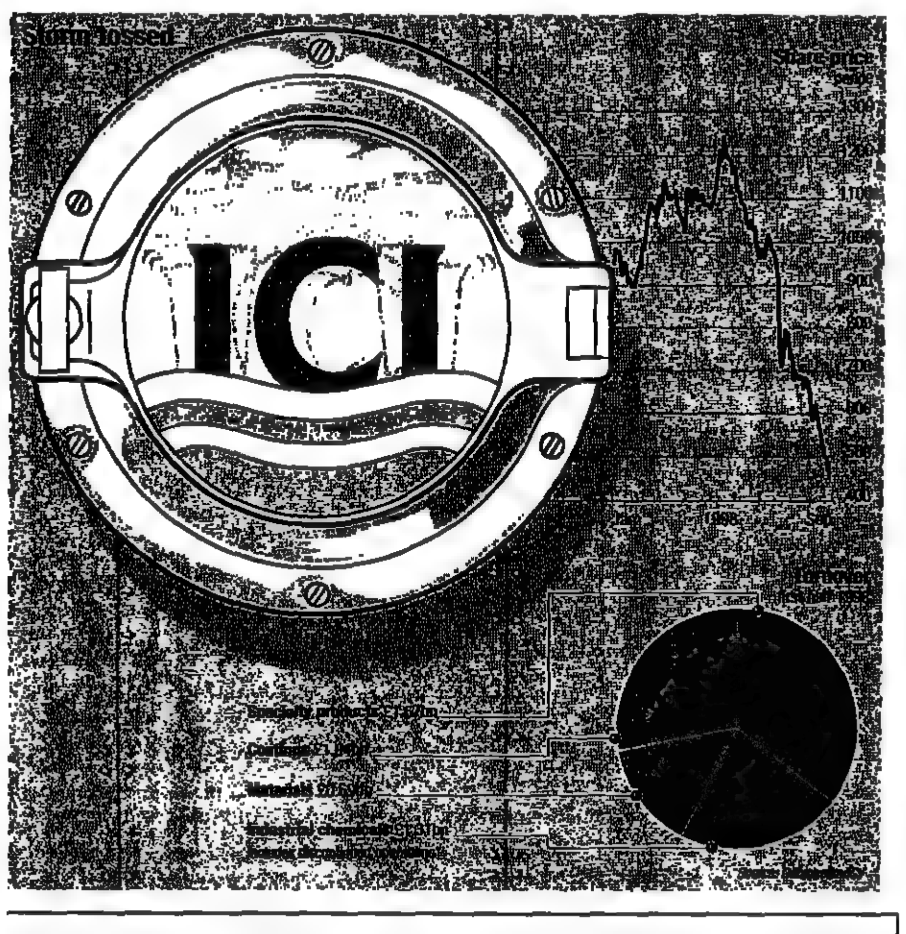
This combination of heavy debt, falling prices on falling sales, and costs that will be hard to reduce, has seen some large shareholders, such as Janus, sell their stakes. Indeed, the volume of selling has cut the share price from £12.44 in May to yesterday's close of 450p.

ICI argues that the pain is transitional: things will improve. One stockbroker, HSBC, agrees, and this week said the selling had been overdone. However, the majority of the UK's chemicals analysts are concerned. Many are advising clients a dividend cut is possible.

This may be forestalled, say some analysts, by the disposal of one or more of the group's core businesses.

Materials is a possibility, but ICI will be swimming against the tide as the profitability of this business declines.

Perhaps the most radical suggestion is that ICI might be forced to part with its best-known brand, Dulux – but such a sale would be highly unpalatable.



Hostile $80m US bid for Filofax

By Andrew Edgecliffe-Johnson

Day Runner, the US personal organiser maker, yesterday launched a £47.9m ($80.5m) hostile bid for Filofax, its UK rival which has struggled to reinvent itself since its yuppie image fell from fashion at the end of the 1980s.

Filofax's shares jumped 62½p to 202½p – just above Day Runner's 200p per share cash offer.

Analysts said a rival bid from a branded goods group or financial buyer was possible, although Filofax's search for strategic partners was unsuccessful earlier this year. Most agreed the offer was likely to spell the end of Filofax's turbulent existence as a public company.

The group was so successful in the 1980s that it dared not advertise for fear of being unable to meet demand. Sales shot up from £100,000 to £12m between 1980 and 1987, but the end of the decade left the company in need of a rescue fund-raising.

A turnround programme begun in 1992 was briefly successful, but the shares have fallen 60 per cent behind the FTSE All-Share Index since a profit warning in 1996.

Filofax advised shareholders to take no action. Day Runner would not say whether it had tried to negotiate an agreed takeover, although its 1997 accounts show that it incurred $1.45m costs for failed acquisitions.

The US group, which has more than 50 per cent of the US market for paper-based organisers sold through mass-market retailers, said it had been "astounded" that Filofax had not called it during this year's strategic review.

Mark Vidovich, chairman of Day Runner, described Filofax as "an underperforming company that lacks direction", where diversification had failed, reorganisations had not delivered results and growth expectations had been cut back.

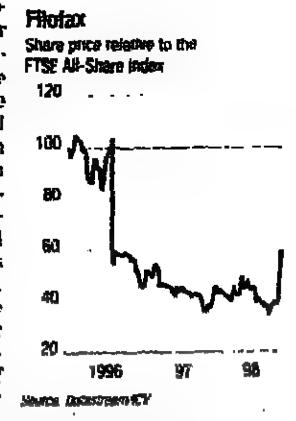
"The brand is not what it was, but that doesn't mean it isn't a good brand," he said. Day Runner would extend the Filofax product range to grow sales, he said. The two companies have little geographical overlap, and Day Runner expects no cost savings or closures from the deal.

Day Runner, which sells 6m organisers and 20m refills a year, made operating profits of $35.6m on sales of $168m in the year to June, while Filofax reported £4.3m of operating profits from turnover of £42.2m.

The sale of a lossmaking cards business knocked Filofax to a pre-tax loss of £882,000.

COMMENT

Filofax



For sociologists of 1980s yuppiedom, Day Runner's bid for Filofax will make a nice postscript to the tale. A reliable underperformer since the early 1990s, Filofax has failed to maintain the rapid growth of the previous decade, with its earnings trajectory turning negative this year. Diversification away from personal organisers into greetings cards has been disastrous. And, more importantly, the challenge from electronic organisers appears insurmountable at the top-end of the diary market. In Day Runner's hands, it will at least have a stronger distribution platform in the unexploited US market. However, Filofax's dependence on affluent women buying its eponymous product for social rather than business purposes has an outdated feel to it. And any move by Day Runner to take it downmarket to boost sales will only erode the value of the brand.

The US company's offer of a 43 per cent premium to Wednesday's share price – eight times operating profits – should satisfy Filofax's shareholders. However, since it could fit well in the back pocket of a luxury goods group – Gucci or Dunhill perhaps – an auction is possible. With few synergies to flaunt, the downmarket US paper-based diary maker may not have much stomach for a fight.

RAC/Cendant

Fear tears will be shed as a result of yesterday's referral of Cendant's £450m acquisition of the Royal Automobile Club to the Monopolies and Mergers Commission. After all, the beneficiaries of the takeover – members of the London-based club who stood to receive £30,000-plus apiece – have been pilloried in some parts of the media, in the latest example of the unhealthy British obsession with fat cats.

But, though the popular rejoicing is out of place, the referral itself has merit. Putting together the RAC with Cendant's existing Green Flag service will create a group with perhaps as much as 45 per cent of the market in servicing broken-down vehicles. True, the Automobile Association will still be bigger with 48 per cent of the market; arguably, it too should be investigated. And, just conceivably, creating a number two of almost the same size could rebalance competition to the benefit of consumers. But this argument looks thin. It certainly requires the full scrutiny of the MMC.

Diageo merger may save $490m

By John Willman

The cost savings expected from December's merger of Guinness and Grand Metropolitan to form Diageo have jumped from £195m a year to £290m ($487m) the food and drink group said yesterday.

The main reason for the rise is bigger-than-expected staff reductions, with 3,000 jobs cut, compared with the 2,000 predicted when the merger was announced in May 1997. The eventual total is likely to top 4,000.

As a result, the direct costs of the merger, including redundancy payments, office reorganisations and systems development, have risen from £375m to £630m. This is in addition to the £250m payment to LVMH, the French group that was the largest shareholder in both Guinness and GrandMet, in return for supporting the merger.

"The investment of £630m behind achieving this new level of synergy has the same relative return as estimated last May and the same ratio of cash to total costs," said Phil Yea, finance director.

The new figures emerged when Diageo reported results for the year to June 30, showing a dip in pre-tax profit excluding exceptionals from £1.93bn to £1.85bn – in line with expectations. Exceptional items cut profits by £167m, against £642m last time, when GrandMet sold off some food businesses.

This year's exceptionals included £572m of merger-related costs, the £54m loss on the sale of the GrandMet stake in the Inntrepreneur pub company and some smaller charges. These were partly offset by a £688m profit on the sale of Dewar's scotch whisky and Bombay gin. The group also took a charge of £58m for a change in interest rate policy.

Trial results of Glaxo's flu drug

By Clive Cookson

Glaxo Wellcome's new influenza drug, Relenza, is very effective both in preventing infection with the flu virus and in treating patients, large-scale clinical trials show. Results from tests on more than 1,000 patients will be presented to a scientific meeting in California today and tomorrow.

Glaxo applied this week for regulatory approval to market Relenza in Europe and Canada. Unless there are unexpected problems, it should be available in time for the millennium flu season in the winter of 1999-2000.

Relenza was invented in Australia – the first drug designed to attack the flu virus – and licensed to Glaxo by Biota, an Australian biotechnology company.

But other drugs that work in the same way are under development. The main competition to Relenza is GS4104, discovered by Gilead Sciences in California and licensed to Roche of Switzerland.

Yesterday at the same meeting in California, the Interscience Conference on Antimicrobial Agents and Chemotherapy, Roche and Gilead announced similarly impressive results.

GS4104 is about a year behind Relenza in the development process. It will be submitted for regulatory approval in 1999.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
A.de Gruchy Φ	6 mths to July 30	28	(29)	1.08♠	(1.31)	5.5	(7.3)	2.56	Oct 30	2.32	-	8.32
Antofagasta	6 mths to June 30☆	61.4	(82.3)	27.7♠	(23.1♥)	13.5	(11.1)	2.25*	Dec 4	2.25*	-	7*
Arlen	6 mths to June 30	20.2	(14.1)	0.789L	(1.3)	1.2L♦	(1.2)	0.4	Oct 26	0.4	-	1.3
Camellia	6 mths to June 30	125.2	(105.8)	18.4♠	(5.74♥)	253.85	(80.88)	19‡	Nov 13	18‡	-	44‡
Chiroscience	6 mths to Aug 31	11.4	(9.2)	11.4L♠	(14.4)	10.3L†	(13.6L)	-	-	-	-	-
Development Secs	6 mths to June 30	13.8	(9.5)	8.4	(1.9♠)	22	(6.2)	1.1	Oct 28	1	-	3
Diageo	Yr to June 30⁑	12,029	(12,985)	1,683♠	(1,289♠)	23	(16.8)	10.8‡	Nov 30	-	10.8‡	-
Hat Pin Φ	6 mths to June 30	3.29	(1.52)	0.016♠	(0.073♠)	-	(1.7)	nil	-	1	-	1
Hewden-Stuart	6 mths to July 31	156.5	(148.5)	22.2♥	(18.9)	5.09	(4.9)	1.2	Dec 10	1	-	[illegible]
Intelligent Env Φ	6 mths to June 30	2.63	(2.07)	0.874L	(2.05L)	3.3L	(9.2L)	-	-	-	-	-
Intl Energy	6 mths to June 30☆	44.9	(42.6)	5.85	(5.18♥)	6.59†	(7.68)	1.76	Nov 20	1.2	-	3.76
Ionica	Yr to Mar 31	11.6	(2.63)	173.2L	(43.9L)	114.73L	(50.38L)	-	-	-	-	-
Ionica	3 mths to June 30	3.58	(1.96)	43.1L	(30.3L)	25.74L	(26.73L)	-	-	-	-	-
Lawrie Φ	6 mths to June 30	124m	(105m)	18.5♥	(5.81)	374.55	(122.06)	24	Nov 12	19‡	-	98‡
London Town	6 mths to June 30	1.44	(0.482)	0.17	(0.138)	[illegible]	(3.87)	1.1	Oct 30	1	-	2.2
Metrodome	Yr to Mar 31	0.917	(0.116)	0.557L♠	(0.845L)	2.1L	(2.6L)	-	-	-	-	-
Norcor	6 mths to June 30	19.6	(19.1)	0.753	(0.751)	2	(2.1)	0.7	Nov 20	1.1	-	3.1
Pemberstone	6 mths to June 30	13.3	(4.85)	1.92	(1.47)	3.15	(2.96)	1.21	Nov 5	1.1	-	[illegible]
Shaw (Arthur)	Yr to Mar 29	11.7	(17.1)	1.63L♠	(1.9L♠)	4.64L	(5.39L)	nil	-	nil	nil	nil
Union	6 mths to June 30	-	(-)	0.505L♠	(1.22♥)	2L	(4.6)	nil	-	nil	-	nil
Viglen Technology	Yr to June 30⁑	94.6	(100.9)	4.44♥	(11)	2.49	(-)	0.5	Nov 2	-	0.9	-
Vision Group	Yr to July 31	8.44	(11.7)	5.81L	(1.49L)	15.45L	(4.09L)	-	-	-	-	-
Wensum	6 mths to July 31	7.95	(7.1)	0.767	(0.65)	6.64	(5.83)	1.85	Nov 21	1.575	-	5

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Fleming Smr Cos	Yr to July 31	202.56	(164.81)	0.704	(0.904)	2.64	(3.44)	2.6	Nov 24	3.2	2.8	4.5
Fgn & Col Pacific	6 mths to July 31	128.81	(201.43)	4.17	(2.09)	1.81	(0.91)	0.8	Nov 2	0.8	-	1.85

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge ♥After exceptional credit. †On increased capital. ☆Comparatives restated. *Gross. ♦On reduced capital. ⁑Figures pro forma. ‡Foreign income dividend ΦAim stock.

Low copper price affects Antofagasta

By Virginia Marsh

Antofagasta Holdings, the London-based mining conglomerate with interests in Chile, expects metal prices to continue to be affected by the economic downturn in south-east Asia while the "contagion" has spread to Latin America.

But, while it did not expect copper prices to recover significantly in the near term, it said it had been encouraged by the fact that the recent problems in Russia had not appeared to affect the metal. "Copper prices are around their normal cyclical low," it said.

Christopher Jowett, financial controller, added that the Chilean government had responded quickly to the decline in business activity in the region and that, despite the turmoil in emerging markets, the Chilean economy was continuing to grow at a reasonable rate.

Depressed copper prices pushed Antofagasta's mining division into a small interim loss but railways and other investments helped it to a 20 per cent increase in pre-tax profits to £27.7m ($46.5m). Sales were £61.4m (£82.3m) and there was an exceptional charge of £200,000. The shares rose 8½p to 172½p.

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EURO PRICES

EQUITIES

Profit worries hold shares back

EUROPEAN OVERVIEW

By Vincent Boland

European share prices went into retreat yesterday, reversing the rising trend seen earlier in the week, as investors began to take more notice of the impact on corporate profits of the crisis sweeping the world's financial markets.

The announcement by UBS, one of Europe's biggest financial institutions, that it would write off SFr950m in the third quarter from its exposure to Long-Term Capital Management, the troubled New York hedge fund, set the tone for a gloomy day's trading, with financial stocks especially badly hit.

After solid gains on Wednesday on the strength of comments from Alan Greenspan, chairman of the US Federal Reserve, that suggested a cut in interest rates was on the way, sentiment turned surprisingly negative.

The FTSE Eurotop 100 index of Europe's leading shares fell 35.31, or 1.48 per cent, to 2,354.73, wiping out about half the gains that were recorded the previous day.

The more broadly-based FTSE Eurotop 300 index fell 12.74, or 1.23 per cent, to 1,026.46, while the Ebloc 100 index of Emu participants fell 12.65, or 1.47 per cent, to 845.71.

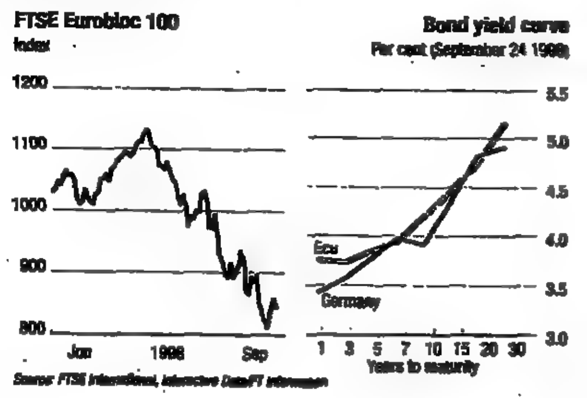
Financial stocks performed poorly after the UBS announcement sparked fears that other European banks might need to take similar action.

Worries about the overall exposure of banks to emerging market losses has been a feature of the sector in recent weeks, and there was caution ahead of delicate negotiations with Russia on renegotiating the terms of the country's enforced debt restructuring.

The financial stocks index fell 2.08 per cent, with the retail banking sub-sector tumbling 3.04 per cent, reflecting a general sell-off in European bank shares.

UBS slipped Ecu 27.6 to Ecu 224.24, while CS Group fell Ecu 6.6 to Ecu 111.81.

Deutsche Bank was down Ecu 5 at Ecu 47.75, Société Générale dropped Ecu 4 at Ecu 112.97, and Dresdner Bank fell Ecu 3.1 to Ecu 35.12. More defensive sectors such as utilities and food companies posted modest gains.



Source: FTSE International, Interactive Data/FT Information

■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Nov		95.910	+0.030			0	0
Mar	96.505	96.505	+0.035	96.510	96.505	95	5145
Jun	96.485	96.485	+0.050	96.505	96.485	55	2911
Sep	96.465	96.460	+0.060	96.490	96.465	54	1333

■ THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

Strike Price	Calls Oct	Calls Nov	Calls Dec	Calls Mar	Puts Oct	Puts Nov	Puts Dec	Puts Mar
96375	0.050		0.105		0.075		0.139	
96500	0.015	0.020	0.065	0.175	0.165	0.170	0.205	0.170

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	2458.0	2396.0	-10.0	2456.0	2395.0	128	5221
Mar		2403.5	-10.0			0	117

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

	2250 C	2250 P	2300 C	2300 P	2325 C	2325 P	2350 C	2350 P	2375 C	2375 P	2400 C	2400 P	2425 C	2425 P	2450 C	2450 P
Oct	161	58	145	76	128	84	112	93	96	104	84	116	72	128	61	140
Nov	237	112	204	129	190	138	177	148	159	156	145	170	132	182	120	195

Est. vol total 12. Prev day's open interest total 5,229. Premiums shown are based on settlement prices.

OTHER INDICES

	Sep 24	Sep 23	Sep 22	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	2824.80	2871.58	2782.81	3670.82	2574.51	3670.82	2709.98
DJ Euro Stx 50	2789.07	2820.28	2728.32	3658.48	2465.81	3658.48	2068.27
MSCI Europe	(u)	1037.21	1011.66	1315.66	960.50	1315.66	510.79

Source: Datastream of FT Information. *Subject to revision next day. (u) unavailable.

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

September 24

National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj	Total retn Ecu
FTSE Eurotop 300	1026.46	-1.23	-12.74	2.70	23.01	1054.46
FTSE Eurotop 100	2354.73	-1.48	-35.31	2.70	14.84	842.17
FTSE Ebloc 100	845.71	-1.47	-12.65	2.38	14.09	857.53
FTSE Eurotop 300 Regions						
Eurobloc	1096.47	-1.27	-13.67	2.38	20.84	1088.21
UK	975.55	-0.69	-5.74	3.19	29.97	1018.75
Europe Ex-Eurobloc	995.67	-1.16	-11.94	3.05	24.45	1027.41
Europe Ex-UK	1056.40	-1.50	-16.11	2.45	19.11	1075.32
FTSE Eurotop Industry Sectors						
RESOURCES	857.14	-2.24	-19.64	3.38	25.76	892.74
Extractive Industries	750.55	+4.70	+34.84	4.62	14.54	774.25
Oil, Integrated	828.77	-2.53	-21.48	3.30	18.15	845.29
GENERAL INDUSTRIES	917.75	-0.63	-5.81	3.80	19.82	935.74
Construction	905.41	+0.48	+4.30	3.09	11.06	915.94
Building Matls & Mrchts	769.21	+0.72	+5.48	2.92	8.96	775.05
Chemicals	774.28	-1.85	-14.60	3.12	16.87	787.45
Diversified Industrials	855.29	-0.37	-3.18	2.50	17.48	880.13
Electronic & Elect Equip	743.03	+0.32	+2.38	2.22	4.09	746.62
Engineering	782.11	-1.18	-9.34	4.22	10.88	790.55
Paper, Pckg & Printing	694.93	-0.02	-0.16	3.37	1.21	695.95
CONSUMER GOODS	1047.98	-0.10	-1.07	1.74	15.69	1073.91
Automobiles	818.21	-1.13	-9.39	3.22	10.25	817.72
Alcoholic Beverages	740.75	-2.52	-19.17	2.96	6.48	745.02
Food Producers	875.41	+0.75	+6.54	1.73	8.79	883.79
Household Goods & Texts	856.37	-0.23	-1.98	2.26	7.01	861.96
Healthcare	896.27	+1.58	+13.93	1.32	9.82	905.36
Pharmaceuticals	942.76	-0.26	-2.49	1.37	4.81	947.41
Tobacco	1201.70	+0.51	+6.08	4.00	5.81	1208.32
SERVICES	1074.78	-1.34	-14.56	2.24	21.35	1103.10
Distribution	745.69	-0.39	-2.98	2.92	11.37	763.96
Leisure & Hotels	682.56	-0.89	-6.13	3.67	12.27	691.60
Media	967.83	-0.42	-4.08	3.11	10.38	974.61
Retailers, Food	962.87	-1.34	-13.11	2.21	11.37	974.13
Retailers, General	940.80	-0.73	-8.06	3.65	16.55	956.13
Telecommunications	963.64	-1.76	-17.31	2.01	13.02	975.26
Breweries, Pubs & Rests	698.99	-2.14	-15.27	3.87	14.20	709.43
Support Services	870.39	-0.24	-2.11	1.53	8.05	877.63
Transport	911.20	+1.33	+12.00	2.89	15.00	924.75
Information Technology	946.72	-4.08	-40.26	0.30	2.23	949.87
UTILITIES	1397.69	+0.34	+4.71	3.18	53.32	1473.33
Electricity	1055.30	-0.05	-0.57	3.32	28.23	1083.40
Gas Distribution	1096.69	+1.45	+15.68	1.66	84.81	1197.91
Water	1058.01	+0.59	+6.21	4.04	38.72	1096.24
FINANCIALS	1052.94	-2.08	-22.41	3.20	28.69	1080.43
Banks, Retail	713.49	-3.04	-22.34	4.27	12.59	722.69
Insurance	836.95	-1.10	-9.29	1.66	11.45	845.71
Life Insurance	991.49	-0.13	-1.28	1.94	11.10	1002.19
Other Financial	736.82	-0.87	-6.47	2.77	15.95	749.13
Investment Companies	837.38	-1.27	-10.81	3.06	20.65	863.03
Property	784.41	+0.44	+3.48	3.18	16.01	798.82

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CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

Sep 24	Currency code	Closing mid point	Change in Ecu	Change on day %	Change on week	Change week %
Europe						
Austria	ATS	14.056351	-0.0025	-0.02	-0.0007	-0.01
Belgium	BEF	41.219573	+0.3141	+3.03	-0.0541	-0.01
Czech Republic	CZK	35.391495	-0.2779	-0.77	-3.7029	-1.90
Denmark	DKK	7.607296	-0.0046	-0.06	-0.0130	-0.17
Finland	FIM	6.081791	-0.0015	-0.02	-0.0002	+0.00
France	FRF	6.699608	-0.0001	+0.00	-0.0011	-0.02
Germany	DEM	1.997674	-0.0003	-0.01	+0.0021	+0.20
Greece	GRD	345.142524	+1.2993	+0.35	+1.8300	+0.53
Hungary	HUF	260.632881	+0.6759	+0.26	+0.6114	+0.24
Ireland	IEP	0.793384	+0.0005	-0.06	-0.0001	-0.01
Italy	ITL	1974.505595	+0.0807	-0.00	-0.2245	-0.01
Luxembourg	LUF	41.219573	-0.0141	-0.03	-0.0041	-0.01
Netherlands	NLG	2.252673	+0.0009	+0.02	-0.0003	-0.01
Norway	NOK	8.882913	-0.0168	-0.19	+0.0078	+0.09
Poland	PLN	4.219689	-0.0227	-0.54	-0.0427	-1.00
Portugal	PTE	205.116161	+0.2671	+0.13	+0.4645	+0.15
Romania	ROL	10010.618285	+136.4983	+1.18	+32.5437	+0.33
Russia	RUB	18.949223	+0.1221	+0.65	+1.3025	+7.38
Slovakia	SKK	41.425433	+0.2046	+0.53	+0.4727	+1.15
Spain	ESP	169.732201	+0.0165	+0.01	+0.0675	+0.04
Sweden	SEK	[illegible]	+0.0379	+0.40	+0.1005	+1.02
Switzerland	CHF	1.658161	+0.0027	+0.16	+0.0151	+0.92
United Kingdom	GBP	0.702255	-0.0003	-0.05	-0.0008	-0.12
Ecu	ECU	1.016886	-0.0001	-0.01	-0.0005	-0.05
Americas						
Brazil	BRL	1.402701	+0.0063	+0.45	+0.0055	+0.39
Canada	CAD	1.797784	-0.0030	-0.44	-0.0124	-0.63
Mexico	MXN	12.021284	+0.0352	+0.29	-0.2759	-2.24
United States	USD	1.189941	+0.0058	+0.43	+0.0016	+0.13
Pacific/Middle East/Africa						
Australia	AUD	2.041107	-0.0060	-0.29	+0.0397	+1.95
Hong Kong	HKD	9.219867	+0.0449	+0.49	+0.0125	+0.14
Japan	JPY	161.552404	-0.0947	+0.06	+4.3850	+2.79
Singapore	SGD	2.044319	-0.0036	-0.17	-0.0026	-0.13
South Africa	ZAR	6.871912	-0.1257	-2.63	-0.4394	-6.01

Source: FTSE International Ltd. This table gives a theoretic synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3364, FRF 0.2217, ITL 0.1822, NLG 0.0577, BEF 0.0386, ESP 0.0848, IEP 0.0116, PTE 0.0153, ATS 0.0325, FIM 0.0167

Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

Bilateral conversion rates against the D-Mark

Sep 24	Fixed rate	Market rate	Diff fxd v mkt %	Week ago %	Forward rate	Forward int rate	Diff int rates v DEM
Austria	7.03552	7.0358	+0.01	+0.01	7.037	3.56	+0.06
Belgium	20.6255	20.6338	+0.04	+0.05	20.637	3.56	+0.06
France	3.35386	3.3537	+0.00	+0.02	3.3542	3.50	+0.05
Finland	3.04001	3.0444	+0.14	+0.15	3.0445	3.51	+0.01
Ireland	0.402676	0.4001	-0.64	-0.62	0.402	5.29	+1.79
Italy	990.002	982.4024	-0.16	-0.15	901.7551	4.77	+1.27
Luxembourg	20.6255	20.6328	+0.04	+0.05	20.617	3.56	+0.06
Netherlands	1.12674	1.1277	+0.09	+0.10	1.1273	3.37	+0.13
Portugal	102.505	102.6775	+0.17	-0.01	102.8408	4.17	+0.61
Spain	85.0722	84.9684	-0.12	-0.16	85.1770	4.25	+0.75
Germany	1		+0.00	+0.00		3.5	+0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2-3. Forward rates are exchange rates to 31.12.98 ... forward rates are those implied by these forward exchange rates. Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31.12.98. DEM forward interest rate for 31.12.98 is calculated by interpolation between published LIBA money fixings.

BONDS

INTEREST RATE SWAPS

Sep 24	D-Mark Ask	D-Mark Bid	Ecu Ask	Ecu Bid	£ Stlg Ask	£ Stlg Bid	US $ Ask	US $ Bid	Yen Ask	Yen Bid
1 year	3.62	3.59	3.94	3.2	6.94	6.91	5.13	5.1	0.44	0.41
2 year	3.67	3.64	3.79	3.75	6.49	6.45	5.04	5.01	0.57	0.54
3 year	3.76	3.73	3.84	3.8	6.36	6.32	5.09	5.06	0.71	0.69
4 year	3.87	3.84	3.93	3.89	6.29	6.25	5.17	5.14	0.84	0.81
5 year	3.985	3.955	4.03	3.99	6.22	6.18	5.26	5.23	0.95	0.92
6 year	[illegible]	4.065	4.135	[illegible]	6.15	6.11	5.32	5.29	[illegible]	1.02
7 year	4.205	4.175	4.24	4.2	6.07	6.03	5.37	5.34	1.15	1.12
8 year	4.315	4.285	4.35	4.31	6	5.96	5.42	5.39	1.24	1.21
9 year	4.415	4.385	4.445	4.405	5.95	5.91	5.46	5.43	1.33	1.3
10 year	4.505	4.475	4.53	4.49	5.92	5.88	5.51	5.48	1.42	1.39
12 year	4.656	4.625	4.67	4.62	5.89	5.85	5.6	5.57	1.62	1.59
15 year	4.835	4.805	4.855	4.805	5.90	5.85	5.72	5.69	1.82	1.79
20 year	5.03	5	5.055	5.005	5.91	5.84	5.82	5.79	2.02	1.97
25 year	5.14	5.11	5.165	5.115	5.91	5.82	5.86	5.83	2.11	2.06
30 year	5.225	5.195	5.235	5.185	5.90	5.81	5.89	5.86	2.19	2.14

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months LIBOR. £ and Yen quoted on a semi-annual actual/365 basis against 6 months LIBOR. D-mark and Ecu quoted on annual bond 30/360 basis against 6 month LIBOR with the exception of the 1 year rate which is quoted against 3 months LIBOR. Source: Intercapital Brokers Ltd.

EUROZONE CORPORATE BONDS

Sep 24	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible Issues								
Belgium (Kingdom of)	03/08	5.750	NA	111.450	4.26	-0.02	-0.22	+0.05
France (Rep of)	04/08	5.250	NA	100.750	4.12	-0.03	-0.14	-0.09
Italy (Rep of)	05/08	5.000	AA	104.870	4.37	-0.05	-0.17	+0.16
Portugal (Rep of)	06/08	5.375	AA-	107.400	4.36	-0.01	-0.20	+0.15
Euro Issues								
Abbey Natl Treas Srv	02/03	4.875	AA	103.410	4.01	-0.05	-0.12	+0.16
Gen Electric Cap Crp	10/04	5.500	AAA	107.370	4.09	-0.03	-0.09	+0.13
Dest Kontrollbank	04/08	5.250	AAA	[illegible]	4.42	-0.01	-0.13	+0.21
Cred Local de France	04/08	5.250	AA+	105.250	4.56	-0.04	-0.12	+0.35
Ecu Issues								
Bayer Hypo & Wech Bk	07/01	5.000	AA-	102.610	3.91	-0.05	-0.21	-0.25
Cred Foncier France	03/04	8.375	A	118.105	4.56	+0.01	-0.21	+0.65
Euro Inv Bank	04/04	5.250	AAA	106.745	3.87	+0.01	-0.15	-0.03
ABN Amro Hldg NV	04/07	6.375	AA-	110.750	4.01	+0.00	+0.00	+0.67

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Euro "in" sovereigns and fungible into one big Euro issue 1/1/99. Euro issues are issued in the new currency. Ecu bonds are issued in Ecus but convert to Euros 1/1/99.

GOVERNMENT BOND SPREADS vs ECU

Sep 24	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"Ins"						
Austria	-0.01	+0.09	+0.24	+0.01	-0.31	+0.09
Belgium	-0.06	+0.02	+0.11	+0.08	+0.13	+0.00
Finland	-0.15	+0.12	+0.20	+0.17	-0.36	-0.77
France	-0.13	-0.10	-0.11	-0.09	-0.04	-0.21
Germany	-0.17	-0.07	+0.05	-0.29	+0.08	-0.24
Ireland	+0.41	-0.06	+0.05	+0.14	+0.22	+0.42
Italy	+0.26	+0.25	+0.29	+0.24	+0.11	+0.18
Luxembourg	-0.09	+0.02	+0.11	+0.08	+0.12	+0.00
Netherlands	-0.07	+0.09	+0.04	-0.09	+0.04	-0.20
Portugal	+0.03	+0.16	+0.25	+0.19	+0.38	+0.27
Spain	-0.03	+0.13	+0.28	+0.27	+0.30	+0.22
"OUTs"						
Denmark	+1.11	+0.77	+0.85	+0.60	+0.40	+0.08
Greece	+4.05	+4.63	+4.77	+3.94	+2.86	+2.64
Sweden	+0.89	-0.24	+0.78	+0.86	+0.60	-0.24
UK	+2.18	+1.40	+1.25	+0.70	+0.27	-0.40

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CREDIT SPREADS vs ECU

Sep 24	S & P rating	Red date	Coupon	Currency code	Spread	Spread wk ago	Spread mth ago
KFW	AAA	01/08	5.000	DEM	+0.08	+0.13	+0.22
France Telecom	AA+	11/06	6.250	FRF	+0.17	+0.17	+0.19
Halifax	AA	07/07	5.625	DEM	+0.34	+0.40	+0.15
Ing Bank NV	AA-	01/08	5.500	NLG	+0.12	+0.17	+0.22
Bayer Hypo W Bk	AA-	02/02	6.750	ITL	+0.32	+0.31	+0.33
Cred Foncier	A	02/03	7.250	DEM	+0.53	+0.66	+0.50
Thomson-Brandt Int	A-	03/04	6.375	FRF	+0.37	+0.42	+0.39
Generale des Eaux	BBB+	03/04	6.250	FRF	+0.31	+0.36	+0.30
Bank of China	BBB	07/99	7.125	DEM	+1.70	+3.05	+3.46
Natl Bk of Hungary	BBB-	06/01	9.000	ATS	+0.95	+2.14	+1.03
Korea Dev Bank	BB+	11/02	5.625	FRF	+7.80	+8.99	+7.60
Argentina	BB	04/08	8.125	XEU	+7.07	+8.81	+5.19

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

FTSE EUROTOP 300

Name	Price (Ecu)	Chge +or-	Mkt cap Ecu(m)	Vol (m)	Yld
ALCOHOLIC BEVERAGES	[illegible]				
AUTOMOBILES	[illegible]				
BANKS RETAIL	[illegible]				
BREWERIES, PUBS & RESTAURANTS	[illegible]				
BUILDING MATERIALS & MERCHANTS	[illegible]				
CHEMICALS	[illegible]				
CONSTRUCTION	[illegible]				
DISTRIBUTORS	[illegible]				
DIVERSIFIED INDUSTRIALS	[illegible]				
ELECTRICITY	[illegible]				
ELECTRONIC & ELECTRICAL EQPT.	[illegible]				
ENGINEERING	[illegible]				
EXTRACTIVE INDUSTRIES	[illegible]				
FOOD PRODUCERS	[illegible]				
GAS DISTRIBUTION	[illegible]				
HEALTH CARE	[illegible]				
HOUSEHOLD GOODS & TEXTILES	[illegible]				
INFORMATION TECHNOLOGY	[illegible]				
INSURANCE	[illegible]				
INVESTMENT COMPANIES	[illegible]				
LEISURE & HOTELS	[illegible]				
LIFE INSURANCE	[illegible]				
MEDIA	[illegible]				
OIL, INTEGRATED	[illegible]				
OTHER FINANCIAL	[illegible]				
PAPER PACKAGING & PRINTING	[illegible]				
PHARMACEUTICALS	[illegible]				
PROPERTY	[illegible]				
RETAILERS, FOOD	[illegible]				
RETAILERS, GENERAL	[illegible]				
SUPPORT SERVICES	[illegible]				
TELECOMMUNICATIONS	[illegible]				
TOBACCO	[illegible]				
TRANSPORT	[illegible]				
WATER	[illegible]				

Notes: Price data and market capitalisation supplied by FTSE International. Market capitalisation figures are based on shares in issue. Shares are not counted where foreign ownership restrictions apply. Market caps may include secondary lines not eligible as constituents. Stocks in italic type are domiciled in Euro countries. Trading Volumes and yields derived from local domestic markets and supplied by Extel, part of FT Information. Company classifications are based on those used for the FTSE Eurotop share indices. Prices of stocks may move on public holidays due to currency fluctuations.

Filofax

Diageo merger may save $490m

OM trade volume beats forecast

By Edward Luce, Capital Markets Editor

OM, the Swedish stock and derivatives exchange, yesterday reported higher-than-expected volumes in the first week of trading on its Swedish government bond future.

The contracts, covering two and 10-year government bonds, were launched last Friday, achieving a combined daily average turnover of more than 8,000 contracts while expectations were below 5,000, said Peter Cox, chief executive of OMLX, its London subsidiary.

OM, an electronic exchange, is to launch short-term interest rate contracts on Swedish interest rates and other products in the medium term.

Part of the exchange's strategy is based on Sweden's opt out from the first round of European monetary union in January. Emu shrinks the universe of diverse futures contracts available to investors and is expected to boost demand for UK gilts and Swedish government bonds.

Mr Cox, who said about 20 per cent of demand for the two futures contracts came through OM's London-based screens, says OM is aiming to be the third largest exchange in Europe after Eurex – the merger between the Deutsche Terminbörse, Soffex, and the London International Financial Futures and Options Exchange. Matif, the French exchange, has reported declining volumes in the past nine months.

The DTB considered the possibility of launching a future on the 10-year Swedish government bond but is now thought unlikely to.

Rate cut hangs over Treasuries

GOVERNMENT BONDS

By John Labate in New York and Khozem Merchant in London

US Treasuries opened weaker but improved by midday as US equities came under renewed pressure after the release of stronger-than-expected figures on durable goods orders.

By early afternoon the benchmark 30-year bond was up $\frac{1}{32}$ to $105\frac{1}{16}$, yielding 5.165 per cent. The 10-year note gained $\frac{1}{16}$ to $107\frac{1}{32}$, sending the yield lower to 4.650 per cent.

In the wake of congressional testimony from Alan Greenspan, Federal Reserve chairman, analysts widely expect the Federal Open Market Committee to lower its key short-term Federal Funds rate at the next meeting on Tuesday.

In a morning release, durable goods orders rose 1.6 per cent in August, above expectations, following a 1.9 per cent rise in July. The August strength was said to be due largely to transport orders. Excluding the transport sector, orders fell in August by 2.1 per cent.

In a separate report, gross domestic product growth for the second quarter was raised by 0.2 per cent to 1.8 per cent.

Generally weaker equity prices in early afternoon trading added to the turnround in Treasury prices.

UK gilts were little changed, closing at 114.61, down 0.5 per cent, with 56,500 contracts traded on Liffe. In the cash market, the yield on the 10-year benchmark gilt rose to 5.05 per cent, while the yield on the 7¼ December 2007 gilt climbed to 5.01 per cent.

UK GDP grew 0.5 per cent in the second quarter year-on-year. Analysts described the figure as of historic interest: it was the first time GDP figures were calculated on the new standardised European methodology.

The more depressing, and bond-market friendly, data came from the Confederation of British Industry September trends survey. It found manufacturing output had slumped to a 5½-year low, domestic orders were subdued and export orders at the lowest level since 1983.

"The CBI picture was dismal, more so because it shows future trends," said Keith Edmonds, chief analyst at IBJ International.

But Mr Greenspan's overnight comments with hints of a cut in the US interest rate overshadowed the grim macro-economic data.

"What Alan Greenspan's comments did was to reduce the timescale for cuts. A 25-basis point cut by the Fed looks likely next week and should be followed by a similar move by the Bank of England, probably in the autumn. Mr Edmonds said a more aggressive cut of 50 basis points "would smack of suspicion that the Fed knows something we do not".

The chairman's comments helped short sterling contracts, which rallied by between six and nine basis points. "The real beneficiary of the day was the front end [short end] of the yield curve," said James Mitchell, strategist at Nomura.

German bunds traded moderately, reversing early gains. The market was generally cautious ahead of the federal election at the weekend. This weighed down equities and gave a fillip to bonds. The December future settled up 0.4 at 113.75, with 530,613 contracts traded on the Deutsche Terminbörse. The yield on 10-year benchmark bunds closed at 3.94 per cent.

Mr Mitchell said sentiment was still cautious on the Bundesbank easing monetary policy. He said the remarks by Mr Greenspan hung over the market. But pressure, he added, was rising for a more aggressive cut by the Fed of, say, 50 basis points. "That is why the short end of the yield curve did well."

External factors were again the main drivers of the bund market. Besides Mr Greenspan's comments, the intervention by New York banking authorities to save the Long-Term Capital Management hedge fund showed that the global financial crisis was hurting US markets.

Ford in $1.5bn 30-year global

INTERNATIONAL BONDS

By Edward Luce

Ford Motors yesterday took many by surprise with a 30-year $1.5bn global bond offering. The company, which is rated single A by both leading credit rating agencies, is the lowest grade corporate to come to the market in the turmoil of recent weeks. It follows an E1bn offering by AA-rated Enel, Italy's electricity utility, on Wednesday.

An official at Merrill Lynch, lead manager, said demand had come from the US. Other bankers pointed to the differences in risk appetite between US and European investors. "European investors probably wouldn't buy 30-year Ford paper in a bull market, let alone now," said one banker.

US investors, on the other hand, thought the market was undervalued with corporate bond spreads having widened so dramatically in recent weeks. The bond was priced at 145 basis points over the 30-year Treasury bond. Earlier this year Ford issued a D-Mark denominated bond at a spread of 46 basis points, which has since widened to more than 90 basis points.

Elsewhere, Triangle Two, a special purpose vehicle set up by CREDIT SUISSE FIRST BOSTON, issued a three-tranche collateralised loan obligation which was entirely de-linked from CSFB's credit rating. Two of the tranches were rated AAA. The $2.5bn bond is 100 per cent collateralised by US Treasuries through the repo market.

CSFB is also paying the vehicle a spread to take the credit risk off its books.

"This is obviously capital efficient for CSFB but provides investors with AAA paper," said an official at CSFB. About 30 per cent of the offering went to Europe, the rest to the US.

Elsewhere, little was rumoured except possibly a 10-year dollar offering from Canada. No corporates are expected in eurobonds in the next few days.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Ford Motor Co	1.5bn	6.625#	98.882R	Oct 2028	0.875R	+145(Nov27)	Merrill Lynch
STERLING							
Finance for People, A1(a1)‡	44.35	(a1,l)	100.00	Oct 2037	0.10	-	ING Barings
Finance for People, A2(a2)‡	119	(a2,l)	100.00	Oct 2037	0.20	-	ING Barings
BNG(b)	100	7.375	110.037R	Aug 2007	0.325R	+79(7¼Dec07)	HSBC Markets/JP Morgan
YEN							
Kokusai Securities Co(c,s)§	20bn	(¾-1¼)	100.00	Sep 2013	2.50	-	Deutsche bank
SWISS FRANCS							
Statoil	200	2.75	101.50	Oct 2004	2.25	-	Warburg Dillon Read
CANADIAN DOLLARS							
GECC	100	5.00	99.89R	Oct 2001	0.1675R	10(l)	TD Securities
PESETAS							
RTVE	80bn	4.60	99.80	Oct 2008	undiscl	-	Caja de Madrid
DANISH KRONER							
L-Bank	400	5.00	101.65	Nov 2001	1.375	-	ING Barings BBL

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Secured on UK mortgages originated by Paragon Mortgages. Legal maturity: Oct 37. £36m cleanup call. a1) Fast pay. Callable from Oct 00 at par. 3-mth Libor +12bp to Oct 00, then +25bp. a2) Slow pay. Callable from Oct 04 at par. 3-mth Libor +25bp to Oct 04, then +50bp. a3) Class : £17.65m, 3ML +65bp to Oct 04, then +130bp. b) Fungible with £300m. Plus 56 days accrued. c) Fixing: 2/10/98. Indicated conversion premium: 8-12%. Callable from 30/9/03 at par. Putable on 30/9/03 & 08 at par. Greenshoe: 15%. l) Over interpolated yield. l) Long 1st coupon. s) Short 1st coupon.

NEWS DIGEST

GERMANY

Deutsche Börse Clearing to connect with SEGA

Deutsche Börse Clearing, the clearing arm of the German stock exchange, will be connected directly with the Swiss Securities Clearing Corp (SEGA) from September 28. This will coincide with the start of trading on the Swiss arm of Eurex, the new cross-border electronic trading system linking the Frankfurt and Zurich derivatives markets.

The German exchange said yesterday the two markets would be connected through a delivery-versus-payment electronic link, the first between two European exchanges. It claimed the move would reduce the risks and costs of cross-border settlements.

The link means it will be possible for German and Swiss securities, required to be delivered in settlement of Eurex or over-the-counter transactions, to be cleared and settled in cross-border securities clearing transactions.

Eurex is also launching a futures contract on 30-year German government bonds on October 2. The Euro-BUXL future will be based on DM85bn of 30-year bonds after the Bundesbank's announcement this week that it would issue another DM15bn of long bonds in early October.

Eurex said the new issue would mean that outstanding volume in the 30-year maturity range would be almost equal to that for futures contracts on 10-year bunds. **Vincent Boland**

ISRAEL

Bank Leumi oversubscribed

Israel beat difficult market conditions in its offering of Bank Leumi, the country's second biggest, by targeting domestic investors with an appetite for complicated packages of shares and warrants, analysts said yesterday. The offering closed late on Wednesday at Shk65 per unit, or 12 per cent above the minimum price set last week.

According to MI Holdings, the bank privatisation company, the offering was 4.6 times subscribed. Each unit includes 10 shares and 15 warrants. The state will receive Shk628m in immediate proceeds, including shares sold to employees. If all warrants are exercised by December 1999, the state will receive up to Shk628m more – and see its stake in Leumi fall from 61 per cent before the offering to 44 per cent.

Foreign investors, who subscribed for 75 per cent of the offering in the pre-commitment stage, were shut out of the deal after being outbid by domestic buyers. However, Lehman Brothers, Merrill Lynch and Flemings, will today decide if they want to exercise a greenshoe option worth 2.4 per cent of the bank's equity on a fully-diluted basis.

Leumi shares on the Tel Aviv Stock Exchange fell 1.7 per cent yesterday to Shk5.76 on exceptionally heavy volume of Shk141m, compared with the TASE's average daily turnover last week of Shk158m. **Avi Machlis, Jerusalem**

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Sep 24	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	108.7193	4.68	-0.15	-0.25	-0.65	+0.01
	08/08	8.750	127.4113	5.17	-0.07	-0.16	-0.44	-0.94
Austria	07/00	5.875	103.8000	3.64	-0.07	-0.04	-0.09	-0.80
	01/08	5.000	105.3600	4.26	-	+0.04	-0.17	-1.29
Belgium	01/00	4.000	100.5000	3.59	-0.06	+0.03	-0.03	-0.46
	03/08	5.750	111.3600	4.25	-0.02	+0.01	-0.22	-1.33
Canada	03/00	5.000	100.0300	4.96	-0.08	-0.27	-0.33	+0.97
	06/08	6.000	108.8800	5.09	-0.01	-0.18	-0.46	-0.60
Denmark	11/00	9.000	108.3000	4.78	+0.05	+0.26	+0.26	+0.17
	11/07	7.000	115.6800	4.89	+0.02	+0.16	-0.03	-1.23
Finland	01/99	11.000	102.1986	3.08	-0.05	-0.01	-0.16	-1.00
	04/08	6.000	112.5000	4.37	-0.02	+0.02	-0.07	-1.32
France	01/00	4.000	100.5600	3.53	-0.04	-0.02	-0.09	-0.54
	04/05	7.500	120.9400	3.83	-0.01	+0.01	-0.21	-1.26
	04/08	5.250	108.7800	4.12	-0.01	+0.07	-0.19	-1.33
	04/29	5.500	108.4900	4.95	+0.03	+0.08	-0.12	-1.15
Germany	09/00	4.000	100.8100	3.41	-0.05	-0.02	-0.14	-0.52
	10/05	6.500	115.2300	3.98	+0.01	+0.02	-0.18	-1.16
	01/08	5.250	109.3700	4.02	-	+0.04	-0.15	-1.49
	01/28	5.625	110.8900	4.91	+0.02	+0.05	-0.10	-1.26
Ireland	10/01	6.500	107.4000	3.89	-0.04	-0.02	-0.25	-1.52
	08/08	6.000	113.1500	4.34	-0.02	-	-0.28	-1.66
Italy	04/01	4.500	101.5500	3.84	-0.05	-0.03	-0.24	-1.41
	05/03	4.750	103.0800	4.01	-0.05	-0.04	-0.23	-1.49
	05/08	5.000	104.7600	4.38	-0.01	-	-0.26	-1.67
	11/27	6.500	118.8500	5.22	-0.01	-0.01	-0.10	-1.41
Japan	03/00	6.400	108.9600	0.39	+0.01	+0.08	-0.12	-0.17
	06/03	4.500	117.9100	0.64	-0.01	+0.10	-0.25	-0.79
	09/05	3.000	115.1000	0.77	-0.05	+0.05	-0.42	-1.21
	03/18	2.700	120.0700	1.51	-	+0.08	-0.52	-1.31
Netherlands	05/00	9.000	108.3700	3.57	+0.01	-0.01	-0.09	-0.51
	07/08	5.250	108.9400	4.12	-0.01	+0.01	-0.25	-1.36
New Zealand	02/01	8.000	104.7258	5.79	-0.27	-0.15	-0.48	-0.88
	11/06	8.000	114.0272	5.81	-0.18	-0.17	-0.31	-0.78
Norway	01/99	9.000	100.2370	7.85	-	+0.01	+0.43	+3.44
	01/07	6.750	108.0000	5.52	-0.02	+0.11	-0.05	-0.29
Portugal	03/00	5.375	102.5100	3.58	+0.02	+0.02	-0.22	-1.36
	06/08	5.375	107.8200	4.39	-0.01	+0.01	-0.26	-1.58
Spain	04/00	6.750	104.5200	3.65	-0.09	-	-0.17	-1.09
	01/08	6.000	112.0300	4.40	-0.02	+0.02	-0.28	-1.48
Sweden	05/00	10.250	108.8560	4.35	-0.02	+0.08	-0.11	-0.41
	05/08	6.500	112.2700	4.86	-	+0.11	-0.09	-1.38
Switzerland	03/00	5.000	104.7300	1.69	+0.03	+0.12	-0.27	-0.05
	06/07	4.500	113.0400	2.78	-	+0.12	+0.14	-0.73
UK	11/01	7.000	103.9297	5.60	-0.05	-0.04	-0.57	-1.24
	12/03	6.500	105.7891	5.21	-0.05	-	-0.50	-1.45
	12/07	7.250	116.3281	5.01	-	+0.05	-0.44	-1.59
	12/28	6.000	119.7813	4.76	+0.03	+0.02	-0.45	-1.77
US*	05/00	5.500	101.3856	4.62	-0.07	-0.13	-0.57	-1.18
	05/03	5.500	103.7725	4.58	+0.01	-0.11	-0.60	-1.44
	05/08	5.625	107.4247	4.66	+0.01	-0.12	-0.56	-1.38
	11/27	6.125	112.6499	5.27	+0.01	-0.01	-0.23	-1.06
ECU	07/00	4.000	100.5700	3.66	-0.05	-0.01	-0.16	-0.82
	04/08	5.250	108.2400	4.18	-	+0.03	-0.17	-1.51

London closing. *New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard-Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents

10 YEAR BENCHMARK SPREADS

Sep 24	Bid Yield	Spread vs Bunds	Spread vs T-Bonds		Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.16	+1.24	+0.50	New Zealand	5.81	+1.89	+1.15
Austria	4.22	+0.30	-0.44	Norway	5.50	+1.58	+0.84
Belgium	4.29	+0.37	-0.37	Portugal	4.40	+0.48	-0.26
Canada	5.09	+1.17	+0.43	Spain	4.48	+0.56	-0.18
Denmark	4.81	+0.89	+0.15	Sweden	4.89	+0.97	+0.23
Finland	4.38	+0.46	-0.28	Switzerland	2.99	-0.93	-1.67
France	4.12	+0.20	-0.54	UK	4.91	+0.99	+0.25
Germany	3.92	-	-0.74	US	4.66	+0.74	-
Ireland	4.35	+0.43	-0.31	ECU	4.21	+0.29	-0.45
Italy	4.45	+0.53	-0.21				
Japan	0.94	-2.98	-3.72				
Netherlands	4.12	+0.20	-0.54				

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Sep 24	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB-	90.9327	10.21	-0.20	+1.68	+5.76
Poland	07/04	7.125	BBB-	101.4635	6.80	+0.05	+0.30	+2.29
Russia	06/07	10.000	CCC-	25.0000	43.99	-2.14	+7.42	+39.37
LATIN AMERICA								
Argentina	09/27	9.750	BB	83.2500	11.81	-0.07	-0.68	+6.67
Brazil	05/27	10.125	BB-	63.6919	16.00	-0.17	+0.62	+10.86
Mexico	05/26	11.500	BB	99.0000	11.62	+0.12	-0.56	+6.50
ASIA								
China	07/06	7.750	BBB+	94.9170	8.67	-0.06	+0.19	+4.09
Philippines	10/16	8.750	BB+	74.5000	12.30	-0.18	+1.24	+7.44
Thailand	04/07	7.750	BBB-	74.5404	12.72	-0.20	+1.53	+8.10
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	102.1590	7.79	+0.00	-0.23	+3.32
South Africa	10/06	8.375	BB+	85.2836	11.24	+0.24	+1.60	+6.66
Turkey	09/07	10.000	B	82.0000	13.59	+0.23	+1.94	+8.97
BRADY BONDS								
Argentina	03/23	5.750	BB	69.1250	9.17	-0.04	-0.75	+4.13
Brazil	04/14	5.000	BB-	62.5000	13.16	+0.16	-0.92	+8.35
Mexico	12/19	6.250	BB	75.7500	8.79	-0.05	-0.36	+3.85
Venezuela	03/20	6.750	B+	67.0000	10.70	-0.17	-0.55	+5.73

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	110.30	110.08	+0.18	110.33	109.72	121,171	107,761

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Oct	Calls Nov	Calls Dec	Puts Oct	Puts Nov	Puts Dec
103	7.03	7.03	7.03	-	-	-
104	6.03	6.03	6.03	-	-	-
105	5.03	5.03	5.03	-	-	0.03
106	4.03	4.03	4.08	-	0.01	0.07

Est. vol. total, Calls 8,354 Puts 17,625. Previous day's open int., Calls 45,458 Puts 88,447.

Germany

NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	114.03	113.84	-	114.03	113.50	4	5245
Mar		114.04	+1.75			0	0

NOTIONAL GERMAN BUND FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	113.93	113.74	+0.03	114.12	113.34	530,613	648,046
Mar	114.04	114.16	-0.07	114.04	113.98	667	11,865

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Nov	Calls Dec	Calls Jan	Puts Nov	Puts Dec	Puts Jan
11350	0.94	1.22	1.55	0.80	1.08	1.04
11400	0.70	0.98	1.32	1.06	1.34	1.29
11450	0.51	0.77	1.09	1.37	1.63	1.55

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 5708 Puts 4840

NOTIONAL GERMAN MED. TERM (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	108.18	108.05	+0.08	108.31	107.89	172,176	255,407
Mar	-	107.73	-	-	-	70	2,677

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	111.20	111.16	+0.09	111.52	111.05	33971	86614
Mar		111.28	+0.09			0	0

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Nov	Calls Dec	Puts Nov	Puts Dec
11100	0.57	1.03	0.41	0.87
11150	0.34	0.79	0.65	1.13
11200	0.16	0.59	1.02	1.43

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 150 Puts 2285

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	114.98	114.90	+0.12	115.07	114.65	61,118	104,265
Mar	-	114.30	-	-	-	-	-

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep		108.81	+0.15			0	381
Dec		108.96	+0.15			0	1594

NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	114.31	114.35	-0.06	114.32	114.04	746	4565
Dec	114.81	114.61	-0.05	115.00	114.45	57285	148264

LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	Calls Oct	Calls Nov	Calls Dec	Puts Oct	Puts Nov	Puts Dec
11450	0.93	1.42	1.71	0.83	1.31	1.30
11500	0.74	1.15	1.45	1.13	1.58	1.55
11550	0.55	0.93	1.23	1.47	1.85	1.82

Est. vol. total, Calls 3075 Puts 360. Previous day's open int., Calls 35299 Puts 24118

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	129-17	129-08	-0-08	129-20	128-31	489,007	711,177
Mar	129-09	128-29	-0-08	129-09	128-22	7,089	69,484
Jun	128-04					350	

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol.	Open int.
Dec	136.37	136.39		136.42	136.18	1614	n/a
Mar	137.57	137.57		137.58	137.55	300	n/a

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	-	106.40	+0.44	-	-	0	0

US CORPORATE BONDS

Sep 23	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA-	106.1786	5.40	-0.09	-0.50	+0.94
NY Tel	08/03	7.00	A+	102.0846	6.68	-0.06	-0.27	+2.22
CWE	05/08	8.00	BBB	114.8463	5.86	-0.04	-0.36	+1.28
FINANCIALS								
GECC	05/07	8.75	AAA	122.3481	5.46	-0.05	-0.57	+0.79
Banc One	08/02	7.25	A+	105.2021	5.43	-0.10	-0.46	+0.97
Media One	01/07	7.30	BBB	107.8892	6.10	-0.04	-0.29	+1.43
INDUSTRIALS								
WMX Tech	04/99	6.25	BBB+	100.2307	5.78	-0.11	-0.25	+1.39
Wal Mart	05/02	8.75	AA	105.6729	5.01	-0.10	-0.58	+0.55
Dayton Hud	08/21	8.70	BBB+	135.7889	6.62	-0.02	-0.08	+1.46
AGENCIES								
FHLMC	04/07	7.14	N/A	112.9185	5.24	-0.08	-0.41	+0.57
SLMA	03/00	7.50	N/A	103.4453	5.01	-0.15	-0.46	+0.48
FNMA	02/18	8.95	N/A	135.6727	5.77	-	-0.13	+0.61
FFCB	08/06	8.95	N/A	123.2583	6.23	-0.01	-0.40	+0.56
HIGH YIELD								
Stone Cont	02/01	9.88	B	94.1250	0.00	-	-	-
AK Stl	12/01	9.13	BB-	100.0000	0.00	-	-	-
Pacaltx	05/04	10.75	B-	91.0000	0.00	-	-	-

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8½	One month	-	Two year	4.50
Broker loan rate	7¼	Two month	-	Three year	4.51
Fed.funds	5⅝	Three month	4.68	Five year	4.49
Fed.funds at intervention	5½	Six month	4.65	10-year	4.66
		One year	4.56	30-year	5.18

INTERNATIONAL BONDS

Sep 24	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EURO DM								
EIB	02/07	5.750	AAA	110.2500	4.27	+0.03	-0.19	+0.23
Spain	01/07	5.750	AA	110.1000	4.27	-0.02	-0.24	+0.23
Philip Morris	10/04	5.375	A	103.8000	4.67	-0.17	-0.26	+0.71
Finland FRN	09/02	3.531	AA	100.6825	3.18	-0.02	-0.03	-0.50
EURO FFR								
Austria	01/04	5.500	AAA	107.4400	3.91	-0.01	-0.19	+0.14
Abbey Nat	02/04	6.000	AA	109.2800	4.04	-0.02	-0.09	+0.27
Cred Foncier	02/04	9.125	A	122.9200	4.27	-0.08	-0.23	+0.50
3CIF FRN	12/01	3.617	AA-	99.9385	3.54	-0.05	-0.08	-0.12
EURO LIRA								
EIB	02/07	7.000	AAA	118.5900	4.31	-0.05	-0.28	-0.07
Abbey Nat	02/02	6.800	AA	108.4200	4.08	-0.06	-0.19	+0.10
Walt Disney	05/00	8.625	A	106.2500	4.40	+0.13	+0.11	+0.45
EIB FRN	03/01	4.743	AAA	100.1079	3.68	-0.05	-0.23	-0.18
EURO £								
EIB	12/07	7.625	AAA	113.4300	5.70	+0.01	-0.23	+0.68
Dresdner Bk	12/07	7.750	AA-	108.6974	6.46	+0.02	+0.04	+1.42
British Gas	03/00	7.625	A+	101.1636	6.74	-0.04	-0.51	+0.87
Abbey Nat FRN	02/02	7.900	AA	100.1319	5.40	-0.03	-0.57	-
EURO $								
EIB	04/07	7.250	AAA	113.2700	5.28	-0.07	-0.59	+0.66
ABN Amro	08/07	7.125	AA-	108.4763	6.85	-0.10	-0.29	+1.23
Quebec	01/07	7.000	A+	108.6587	5.69	-0.10	-0.25	+1.06
Citicorp FRN	02/04	5.750	A+	100.7387	5.42	-0.10	+0.08	+0.05
EURO C$								
Bayer L-Bk	08/04	9.500	AAA	119.1430	5.58	-0.06	-0.61	+0.16
Toronto	05/04	8.500	AA+	114.0498	5.53	-0.06	-0.46	+0.11
Bell Canada	07/99	10.625	A+	103.8500	5.65	-0.12	-0.42	+0.96
Deutsche B FRN	09/02	5.675	AA+	100.7143	5.57	-0.06	-0.31	+0.34
EURO YEN								
World Bank	03/02	5.250	AAA	116.1163	0.56	-	-0.20	-0.08
Spain	03/02	5.750	AA	117.8883	0.55	-	-0.18	-0.04
Cred Foncier	08/02	4.750	A	114.1490	1.02	-	-0.20	+0.43
Italy FRN	07/99	0.727	AA	100.2215	0.06	-	-0.12	-0.26

London closing. Standard & Poor's ratings. Yields: Local market standard/Annualised basis. Source: Interactive Data/FT Information

UK BONDS

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Thu Sep 24	Day's change %	Wed Sep 23	Accrued interest	xd adj. ytd
1 Up to 5 years (18)	120.62	0.09	120.62	2.01	7.68
2 5-15 years (19)	170.92	-0.03	170.97	3.18	7.34
3 Over 15 years (5)	222.14	-0.34	222.88	2.87	8.20
4 Irredeemables (4)	295.14	-1.05	299.55	3.43	9.67
5 All stocks (46)	162.34	-0.07	162.50	2.65	7.66

UK Indices

Yields	Low coupon Sep 24	Low coupon Sep 23	Low coupon Yr. ago	Medium coupon Sep 24	Medium coupon Sep 23	Medium coupon Yr. ago	High coupon Sep 24	High coupon Sep 23	High coupon Yr. ago
5 yrs	5.32	5.34	6.68	5.27	5.29	6.76	5.32	5.35	6.82
15 yrs	4.86	4.83	6.63	5.02	4.99	6.64	5.10	5.05	6.72
20 yrs	4.81	4.78	6.53	5.00	4.97	6.61	5.10	5.04	6.72
Irred.†	5.10	5.04	6.72						

Index-linked	Thu Sep 24	Day's change %	Wed Sep 23	Accrued interest	xd adj. ytd		Inflation 5% Sep 24	Sep 23	Yr. ago	Inflation 10% Sep 24	Sep 23	Yr. ago
6 Up to 5 years (2)	220.29	-0.08	220.46	1.10	4.35	Up to 5 yrs	2.60	2.77	3.45	2.08	2.05	2.72
7 Over 5 years (9)	236.59	-0.25	237.15	1.29	5.08	Over 5 yrs	2.50	2.47	3.38	2.30	2.27	3.28
8 All stocks (11)	234.70	-0.35	235.82	1.23	5.67							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Sep 24	Sep 23	Sep 22	Sep 21	Sep 18	Yr ago	High*	Low*
Govt. Secs. (UK)	110.78	111.01	111.58	111.87	111.09	99.71	111.87	93.31
Fixed Interest	150.50	151.24	151.31	151.51	151.02	130.17	151.51	115.32

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UK GILTS PRICES

Notes	Price £	+ or -	Yield (1)	Yield (2)	52 week High	52 week Low
[illegible]						

Shorts (Lives up to Five Years); Five to Fifteen Years; Over Fifteen Years; Undated; Index-Linked — [illegible]

Other Fixed Interest

Notes	Yield (1)	Yield (2)	Price £	+ or -	52 week High	52 week Low
[illegible]						

* 'Tap' stock. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. [illegible]

CURRENCIES & MONEY

Dollar hit by hedge fund's collapse

MARKETS REPORT

By Simon Kuper

The demise of Long-Term Capital Management, the US hedge fund, is hurting the dollar in all sorts of ways.

Firstly, and most obviously, it has increased fears for the US economy. The fund's leveraged exposure is said to have hit $100bn at one point. If much of that money is lost, then many US banks could be left out of pocket, particularly since they are to supply the bulk of the fund's $3.75bn bail-out package. The suffering of banks could raise pressure on the Federal Reserve to cut US interest rates.

Alan Greenspan, the Fed's chairman, had hinted on Wednesday that a rate cut might be imminent. The market is pricing it in to take place next Tuesday, when the Fed's open market committee meets.

But the ironically named Long-Term Capital, which was led by John Meriwether, a star of Michael Lewis' book *Liar's Poker*, is denting the dollar in another way too. Many of the fund's positions are now being closed, and traders said yesterday that this process seemed to be boosting both sterling and the yen against the dollar.

The pound surged to $1.700 in afternoon US trading yesterday, 1.7 cent up on Wednesday's London close and above its recent trading range, even though there was little in the way of economic news to drive it. Traders said a UK clearing bank was spending $1bn on buying pounds yesterday. They said this might be linked with Long-Term Capital's demise: the fund is thought to have been short the pound, perhaps as a hedge for bets on gilts, and the UK bank may have been closing that position.

The yen also rose against the dollar, even though almost every currency strategist in the world is bearish about Japan's economy and its attempts at banking reforms. Late yesterday the yen hit Y134.85, Y1.55 above Wednesday's London close. Traders said this may have been a consequence of Long-Term Capital's emerging market assets being sold, and the yen with which they had been bought repaid. Michael Wallace, senior currency economist at S&P's MMS in London, said this process could continue for some time. "It's pretty frightening stuff," he said.

There was talk that European central banks had been buying the dollar in order to stabilise it. Yet the currency dropped 1.4 pfg against the D-Mark to DM1.673 in late trading.

Even the D-Mark/Swiss franc rate was affected by Long Term Capital's demise. The Swissie slipped as United Bank of Switzerland said it would report a large third-quarter loss partly as a result of the affair.

■ The Czech Republic cut its two-week repo rate by 50 basis points to 13.50 per cent, after consumer prices fell slightly in August.

Josef Tosovsky, the central bank governor, said: "Room for lowering interest rates still exists." The reduction had been modest for now, he said, because markets were unstable.

■ The Canadian dollar has surged on the prospect that the US will cut rates.

Recently the "loonie" dropped to its lowest level since its creation on 1858, chiefly because Canadian rates were below US levels. That forced the Bank of Canada to raise rates sharply, despite the fact that Canadian inflation is dead.

However, Mr Wallace says that buying Canadian dollars now may be a mistake. If the US were to cut, he says, Canada would follow suit the next morning at the latest.

Late yesterday the Canadian dollar was at C$1.513 against the dollar, 1.2 cents up on Wednesday.

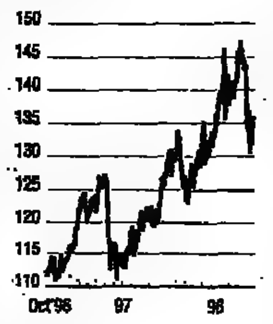
■ There was a rare sound from Tokyo yesterday: the voice of a Japanese official saying he was happy with the yen's exchange rate. The breed almost invariably expresses discontent with the currency's perceived weakness.

Toyoo Gyohten, adviser to the Japanese government, said: "The thing I think I can say now is that at this level (of dollar-yen), neither Japanese authorities nor American authorities are terribly unhappy."

This is as close as any Tokyo official ever comes to advocating yen sales.

Dollar

Against the yen (¥ per $)



Source: Datastream/ICV

■ **POUND IN NEW YORK**

Sep 24	—Latest—	— Prev. close —
£ spot	1.6940	1.6850
1 mth	1.6910	1.6824
3 mth	[illegible]	1.6770
1 yr	1.6580	1.6574

■ **OTHER CURRENCIES**

Sep 24	£	$
Czech Rp	50.9662 - 51.0719	30.1290 - 30.1790
Hungary	370.383 - 370.752	218.960 - 219.100
[illegible]	[illegible]	[illegible]
Kuwait	0.5142 - 0.5146	0.3040 - 0.3041
Peru	5.1239 - 5.1311	3.0290 - 3.0320
Poland	5.9967 - 6.0034	3.5450 - 3.5475
Russia	26.8119 - 27.0751	15.8500 - 15.9990
UAE	6.2126 - 6.2156	3.6726 - 3.6729

POUND SPOT FORWARD AGAINST THE POUND

Sep 24		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	19.9850	+0.0646	775 - 926	20.0231	[illegible]	19.9198	3.9	19.7893	3.7	19.3686	3.1	104.0
Belgium	(BFr)	58.6092	+0.0424	632 - 551	58.7588	58.2340	58.42	3.9	58.0635	3.7	56.8154	3.1	103.8
Denmark	(DKr)	10.8167	+0.0117	102 - 231	10.8344	10.7465	10.7984	2.0	10.7629	2.0	10.6295	1.7	107.5
Finland	(FM)	8.5476	+0.0012	415 - 536	8.6660	8.5950	8.6196	3.9	8.566	3.6	8.3776	3.1	82.9
France	(FFr)	9.5261	+0.0035	224 - 297	9.5336	9.4651	9.4951	3.9	9.4371	3.7	[illegible]	3.1	107.5
Germany	(DM)	2.8404	+0.0007	394 - 414	2.8477	2.8214	[illegible]	3.9	2.8135	3.6	2.753	3.1	105.9
[illegible]													

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Sep 24		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	11.8118	-0.0602	098 - 138	11.8550	11.7300	11.7823	2.0	11.7573	1.8	11.6419	1.4	103.3
Belgium	(BFr)	34.6400	-0.159	[illegible]	34.7500	34.5700	34.584	1.9	34.481	1.8	34.15	1.4	103.9
Denmark	(DKr)	6.3930	[illegible]	[illegible]	6.4100	6.3721	6.3925	0.1	[illegible]	0.1	[illegible]	0.1	105.9
Finland	(FM)	5.1110	-0.0265	085 - 135	5.1338	5.0865	5.1026	2.0	5.0859	1.9	5.0325	1.5	82.5
France	(FFr)	5.6302	-0.0279	292 - 312	5.6505	5.6165	5.621	2.0	5.6042	1.8	5.5509	1.4	107.2
Germany	(DM)	1.6788	-0.0085	785 - 790	1.6849	1.6738	1.676	2.0	1.6700	1.9	1.6542	1.4	105.6
[illegible]													

WORLD INTEREST RATES

MONEY RATES

Sep 24	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.75	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.60	-	3.30
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.30
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.19
Italy	5	[illegible]	[illegible]	[illegible]	4	6.50	5.00	5.07
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	2.75	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR BBA London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	5.15	5.15	5.05	4.90	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

EURO CURRENCY INTEREST RATES

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	Calls Dec	Calls Mar	Calls Jun	Puts Dec	Puts Mar	Puts Jun
93000	0.180	0.575	0.875	0.140	0.105	0.105
93125	0.130			0.205		
93250	0.090	0.400	0.680	0.290	[illegible]	0.160
93375	0.055			0.380		
93500	0.040	0.260	0.510	0.490	0.290	0.240
93625	0.030			0.605		

Est. vol. total, Calls 22301 Puts 58068. Previous day's open int., Calls 442782 Puts 450889

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	Calls Dec	Calls Mar	Calls Jun	Puts Dec	Puts Mar	Puts Jun
96125	0.185			0.070		
96250	0.125	0.310	0.365	0.135	0.085	0.135
96375	0.070			0.205		

Est. vol. total, Calls 1486 Puts 700. Previous day's open int., Calls 57285 Puts 71309

BASE LENDING RATES

	%		%		%
Adam & Company	7.50	Exeter Trust Limited	8.50	Smith & Williamson	7.50
Allied Irish Bank (GB)	7.50	Financial & Gen Bank	8.00	Sun Bank	7.50
●Henry Ansbacher	7.50	●Robert Fleming & Co	7.50	TSB	7.50
Banco Bilbao Vizcaya	7.50	Habib Bank AG Zurich	7.50	United Bank of Kuwait	7.50
Bank of Cyprus	7.50	Heritable & Gen Inv Bk	7.50	Unity Trust Bank Plc	7.50
Bank of Ireland	7.50	C. Hoare & Co	7.50	Whiteaway Laidlaw	7.50
Bank of India	7.50	●Hambros Bank	7.50	Yorkshire Bank	7.50
Bank of Scotland	7.50	Hongkong & Shanghai	7.50		
Barclays Bank	7.50	Investec Bank (UK) Ltd	7.50	● Members of London Investment Banking Association	
Brit Bk of Mid East	7.50	Julian Hodge Bank	7.50		
●Brown Shipley & Co Ltd	7.50	●Leopold Joseph & Sons	7.50		
Citibank NA	7.50	Lloyds Bank	7.50		
Clydesdale Bank	7.50	Midland Bank	7.50		
The Co-operative Bank	7.50	NatWestminster	7.50		
Coutts & Co	7.50	●Rea Brothers	7.50		
Cyprus Popular Bank	7.50	Royal Bk of Scotland	7.50		
Duncan Lawrie	7.50	Scottish Widows Bank	7.50		
		●Singer & Friedlander	7.50		

New cassava strain could prove a food of fortune

High-yielding versions of the subsistence root crop could provide Ghana with a valuable export commodity, writes John Madeley

On his agro-forestry farm near Kumasi in southern Ghana, Nana Oseisarfo last year planted half an acre of a new variety of the root crop cassava. He described his first yield as "overwhelming" – three times higher than from any cassava he had grown before. Mr Oseisarfo now plans to turn over nearly half his farm to cassava. Some of the crop he intends to sell to make *gari*, a popular local food, and some he plans to export.

Formerly Africa's largest cocoa producer, Ghana is on the brink of a cassava boom, with the export market giving farmers an additional outlet and income.

"No one in Ghana ever thought, until recently, that you could export cassava," says Dr Kwabena Adjei, Ghana's minister of food and agriculture.

Traditionally thought of as a food of the poor, cassava has been an important staple for Ghanaians since the Portuguese brought it to Africa from Brazil in the 16th century. The crop can grow in poor soil and survive drought conditions when other crops fail; it contributes 22 per cent of Ghana's agricultural gross domestic product. Cassava tubers, which look like large potatoes, can be stored in the ground for up to a year.

The tubers are peeled and then grated or chipped; they are exported usually in the form of chips or pellets. While the pellets are used as cattle feed, cassava can be refined into a *couscous* which, like *gari*, is in demand in Europe, especially among African communities.

The crop can grow in poor soil and survive droughts when other crops fail

Cassava also has a number of industrial applications – starch, for example, is being produced from the crop for use in specialised markets.

The breakthrough into export markets has been made possible by high-yielding varieties of the crop, developed at the International Institute of Tropical Agriculture in Nigeria.

Whereas traditional varieties yield about nine tonnes a hectare, the improved strains can give farmers 27-33 tonnes a hectare. They have turned cassava into a highly profitable crop, especially as fertilisers and pesticides are not needed. The improved varieties are also more resistant to a disease called cassava mosaic virus, which farmers have long fought; it is hardly surprising that they are in big demand.

"Cassava is probably the most under-rated crop in the tropics," says Cheikh Sourang of the Rome-based International Fund for Agricultural Development, the United Nations agency that helps small farmers. "It is not only a food crop, but also a commercial crop with numerous industrial applications; hence its potential to generate income for the poor."

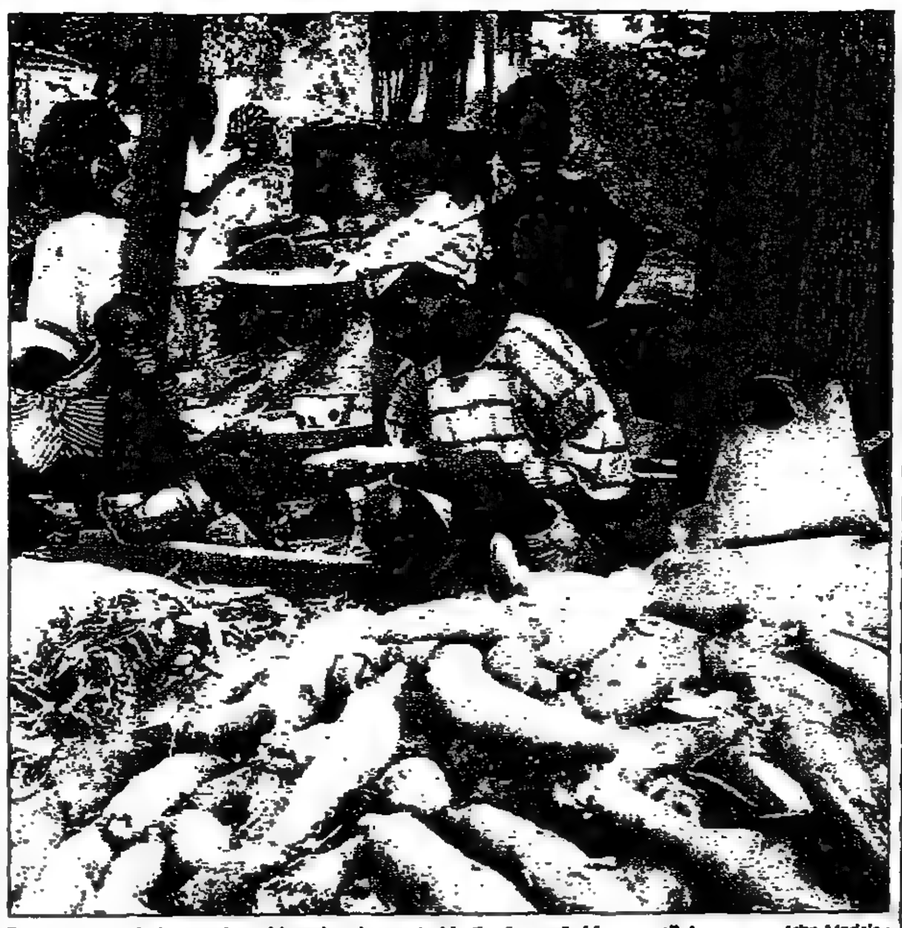
Ifad is funding Ghana's root and tuber improvement programme, which is helping to speed up the distribution of the new varieties. It is hoped that 750,000 of the country's 2m farmers will have access to the improved planting material within the next five years.

Output of cassava in Ghana has grown from 2.7m tonnes in 1987 to 7.1m tonnes in 1996, according to Adjei Adjekum, the programme's co-ordinator. He believes the new varieties will mean that substantially more cassava can be produced on the same area of land.

Cassava was first exported from Ghana in 1994, with the private sector taking the initiative. Transport and Commodity General, an Accra-based company, is responsible for most of the exports, which are earning the country $189,000 a year.

This figure is set for a big increase. The high-yielding varieties will mean there is more cassava for both domestic needs and the export market, says Dr Adjei.

Ifad is working with the Food and Agriculture Organisation of the UN and Canada's International Development Research Centre to finalise a global market study of cassava. Intriguingly it is the poorest farmers who grow most of the cassava in Ghana and who stand to gain from its development.



Tubers are peeled, grated or chipped and exported in the form of chips or pellets — John Madeley

Liffe to decide on electronic trading soon

By Paul Solman

The London International Financial Futures and Options Exchange will decide by the end of the year whether to switch to electronic trading for commodity futures products.

This follows Liffe's announcement on Wednesday that it is bringing forward the launch of Liffe Connect, its computer-based platform, for its financial contracts from June to April next year.

"Electronic trading for commodities futures is under review. There are no firm plans yet but a decision will be made by the end of the year," Liffe said yesterday.

Formal consultations had not yet begun with members and traders, it added.

Cocoa and robusta coffee are Liffe's two main commodity futures contracts, though the exchange also has contracts for white sugar, wheat, barley, potatoes and Biffex, the Baltic Freight index which tracks ocean freight rates for dry cargo.

All business is carried out on the trading floor except white sugar, which is already traded electronically using the FAST (fast automated screen trading) system, and was transferred to screens in 1986 in an effort to allow wider participation in the market.

However, many commodities traders are concerned that while screen-based systems might be acceptable for financial products, they will prove unsuitable for commodities.

"Cocoa and agri-futures in general have a lot of forward trading, with a very active switch market," one cocoa trader said yesterday. "Trading in that way would be much harder on screen.

"The edge is to spot something before someone else does. With screens, everybody sees the same thing at the same time."

Traders are also concerned that locals – who operate for their own accounts thus raising trading liquidity – will not use the London market once it is screen-based.

And they say the loss of human contact could damage the nature of the futures trading market.

"When people talk about market sentiment they are talking about a general feel among traders on a floor. That won't exist under electronic trading," one trader said.

Futures exchanges throughout the world are under increasing pressure to move to electronic dealing, which is cheaper to maintain than a trading floor. In April, Matif of France, Europe's fourth largest exchange, moved to electronic trading and closed its dealing floor just seven weeks later.

Eurex, the European futures exchange created by the merger of Deutsche Terminbörse (DTB) of Germany and Soffex of Switzerland, is also based on electronic dealing.

Both the Chicago Board of Trade and the Chicago Mercantile Exchange, the biggest US futures exchanges, are engaged in screen-based trading projects.

Also, a new electronic exchange set up by Cantor Fitzgerald, the broker, and the New York Board of Trade, was launched last month.

Until relatively recently, *Liffe* had emphasised it was committed to pit-based trading for all contracts, including financial products such as equities and bonds. However, the success of screen-based competitors such as DTB has forced it to embrace electronic trading.

Gold jumps after Greenspan's hint on rates

MARKETS REPORT

By Paul Solman

Gold prices jumped yesterday in the wake of comments by Alan Greenspan, chairman of the US Federal Reserve, about US interest rates. Mr Greenspan hinted on Wednesday that a US move would enable rate cuts in other economies.

The precious metal was "fixed" at $292.70 an ounce in the afternoon in London, $2.10 higher than the morning fix and $3.80 above Wednesday afternoon's fix. Later in Europe, gold was quoted at $293.80, $4 up on the previous close in New York.

World oil markets were more subdued after rising about $1 in the past week. In late trading on London's International Petroleum Exchange, the benchmark November contract for Brent blend was $14.61 a barrel compared with Wednesday's close of $14.52.

Base metals were mixed on the London Metal Exchange, with three-month copper ending up $3 at $1,650 a tonne and nickel down $22 at $4,135 a tonne.

In base metals news, Outokumpu, the Finnish metals group, said a four-day strike at one of its smelters would cut nickel output by more than 400 tonnes and copper production by 2,000 tonnes. Meanwhile, aluminium shipments from the US fell 0.8 per cent in July to 1.8bn pounds, the Aluminium Association reported.

On the London International Financial Futures and Options Exchange, cocoa fell in thin volumes, closing £5 lower at £1,018 a tonne. Malaysia yesterday estimated its cocoa production this year at 90,000-100,000 tonnes against 106,000 tonnes last year. The country, one of the world's larger producers, said the crop had been hit by drought in the first half of the year.

Coffee made bigger gains than of late, the November contract ending $39 higher at $1,630. The International Coffee Organisation meets again today in an attempt to reach a deal on the international coffee agreement.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1307-8	1337.5-8.0
Previous	1294.5-95.5	1326.5-27
High/low		1338/1333
AM Official	1304-05	1337-37.5
Kerb close		1337-8
Open int.	290,730	
Total daily turnover	48,301	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1127-32	1158-60
Previous	1122-27	1156-57
High/low		1160
AM Official	1125-30	1156-57
Kerb close		1156-60
Open int.	8,189	
Total daily turnover	1,941	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	515.5-6.5	530-1
Previous	514-5	528.5-9
High/low		532/525
AM Official	514-5	528-8.5
Kerb close		528-8
Open int.	38,199	
Total daily turnover	5,024	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4060-70	4130-35
Previous	4075-85	4150-55
High/low		4210/4080
AM Official	4040-50	4110-20
Kerb close		4070-75
Open int.	60,324	
Total daily turnover	13,786	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5425-35	5365-70
Previous	5465-75	5395-400
High/low		5400/5355
AM Official	5415-20	5360-65
Kerb close		5360-65
Open int.	12,887	
Total daily turnover	4,667	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	983.5-4.5	1007-8
Previous	979.5-80.5	1004-05
High/low		1010/1001
AM Official	981-2	1007-07.5
Kerb close		1001-2
Open int.	83,847	
Total daily turnover	13,291	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1630-1	1649-50
Previous	1624.5-25.5	1646-47
High/low		1660/1640
AM Official	1632-32.5	1651-52
Kerb close		1650-1
Open int.	166,748	
Total daily turnover	47,599	

■ LME AM Official £/$ rate: 1.6961
LME Closing £/$ rate: 1.6930

Spot 1.6939 3 mths: 1.6865 6 mths: 1.6799 9 mths: 1.6730

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	75.35	-0.15	75.80	74.80	670	1,874
Oct	74.90	-	75.05	74.55	423	3,602
Nov	75.05	+0.05	74.90	74.70	34	1,966
Dec	75.10	+0.05	75.40	74.10	6,787	30,095
Jan	75.25	+0.05	-	-	18	2,101
Feb	75.40	-0.05	-	-	4	1,214
Total						

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	292.60-293.10		
Opening	291.50-291.80		
Morning fix	290.60	172.535	405.096
Afternoon fix	292.70	173.370	407.438
Day's High	294.20-294.50		
Day's Low	290.60-290.90		
Previous close	289.20-289.70		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month .... 4.74 6 months 3.95
2 months .... 4.61 12 months 3.54
3 months 4.49

Silver Fix	p/troy oz.	US cts equiv.
Spot	300.475	506.000

Silver Lending Rates

1 month .... 3.75 6 months 2.15
2 months .... 3.00 12 months 1.90
3 months 2.75

Gold Coins	$ price	£ equiv
Krugerrand	290-294	170-172
New Sovereign	67-71	39-41

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	293.8	+4.2	287.2	287.2	7	7
Oct	293.9	+4.2	294.7	290.5	385	8,917
Dec	296.4	+3.9	297.4	292.2	20,667	79,753
Feb	298.1	+3.8	299.0	[illegible]	321	17,107
Apr	299.8	+3.7	300.5	297.5	346	11,903
Jun	301.5	+3.7	302.3	[illegible]	375	14,814
Total					24,208	174,219

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	360.9	+5.4	362.4	353.5	1,173	8,409
Jan	360.1	+4.4	[illegible]	[illegible]	623	3,191
Apr	361.1	+4.4	-	-	100	150
Jul	362.1	+4.4	-	-	5	31
Total					1,7[illegible]	12,211

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	292.00	+6.00	290.00	284.00	5	18
Dec	287.00	+6.00	288.00	282.00	124	2,697
Mar	284.50	+6.00	-	-	-	328
Total					134	3,[illegible]

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	511.3	+11.1	510.0	500.0	429	383
Dec	515.3	+11.0	517.5	502.5	16,103	53,783
Jan	517.5	+11.0	510.0	510.0	-	53
Mar	519.1	+10.9	520.0	509.0	678	10,403
May	521.7	+10.9	-	-	26	1,764
Jul	524.1	+10.9	520.0	513.5	145	2,907
Total					18,419	78,800

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	16.06	+0.25	16.10	10.05	62,767	125,7[illegible]
Dec	16.16	+0.21	16.20	15.78	31,018	79,978
Jan	16.29	+0.24	16.29	15.90	7,189	42,981
Feb	16.36	+0.20	16.36	16.01	3,493	20,554
Mar	16.45	+0.19	16.45	16.11	3,130	19,016
Apr	16.50	+0.14	16.51	16.26	1,148	11,995
Total	[illegible]					

■ CRUDE OIL IPE ($/barrel)

[illegible]

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

[illegible]

■ GAS OIL IPE ($/tonne)

[illegible]

■ NATURAL GAS IPE (1,000 therms, pence per therm)

[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

[illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls)

[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	72.85	+1.8	-	-	-	51
Nov	72.85	-	73.35	73.00	310	2,440
Jan	74.75	-	75.35	74.75	98	2,306
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

[illegible]

■ BARLEY LIFFE (100 tonnes; £ per tonne)

[illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

[illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton)

[illegible]

■ POTATOES LIFFE (20 tonnes; £ per tonne)

[illegible]

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

[illegible]

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	[illegible]	-3	988	988	23	31
Dec	1018	-5	1022	1012	1,232	67,297
Mar	1047	-2	1049	1041	848	38,988
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ COCOA CSCE (10 tonnes; $/tonnes)

[illegible]

■ COCOA (ICCO) (SDR's/tonne)

[illegible]

■ COFFEE LIFFE (5 tonnes; $/tonne)

[illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

[illegible]

■ COFFEE (ICO) (US cents/pound)

[illegible]

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

[illegible]

PULP AND PAPER

■ PULPEX OMLX (USS, 24 air dry tons)

[illegible]

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

FUTURES DATA
All futures data supplied by CMS.

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	[illegible]	-0.100	[illegible]	60.450	6,525	30,690
Dec	63.100	-	63.150	62.575	6,391	34,189
Feb	63.975	+0.225	64.000	63.500	2,895	17,030
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ LEAN HOGS CME (40,000lbs; cents/lbs)

[illegible]

■ PORK BELLIES CME (40,000lbs; cents/lbs)

[illegible]

LONDON TRADED OPTIONS

[illegible]

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

[illegible]

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

[illegible]

■ NATURAL GAS (Pence/therm)

[illegible]

■ OTHER

[illegible]

INDICES

■ Reuters (Base: 18/9/31 = 100)

[illegible]

■ CRB Futures (Base: 1967 = 100)

[illegible]

■ GSCI Spot (Base: 1970 = 100)

[illegible]

■ LME WAREHOUSE STOCKS (tonnes)

[illegible]

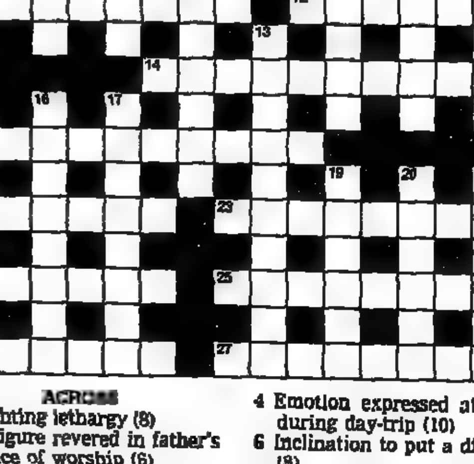
Wool from Mallett & Co

The Newcastle sale tested demand for fine Australian wools. Fine merino categories in New Zealand were lower. But keen competition saw British wool prices advance for the third successive sale. Australia's main eastern market indicator fell by one cent to 518 cents a kg. The northern and western regional indicators closed the week two cents down. The New Zealand market indicator gained 13 cents to 431 NZ cents a kg, with the strong indicator 17 cents higher but the fine indicator 10 cents lower. The South African market closed about 4 per cent lower, thanks to the strengthening of the rand against the US dollar.

JOTTER PAD

CROSSWORD

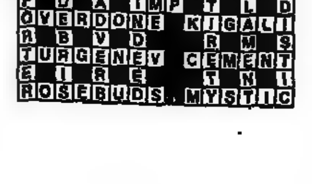
No.9,796 Set by ORENSE



ACROSS
1 Fighting lethargy (8)
5 A figure revered in father's place of worship (6)
9 Right time to start yielding assets (8)
10 Country figures exclude university (6)
11 A bit of a wet that sound government reject (8)
12 Hold, and by end of day be level (6)
14 Sign of diminishing intelligence? (5,5)
18 Gone! Given no right of employment (4-6)
22 Lines work back, with energy and effort (6)
23 Going to get rather attractive (8)
24 Salesman's poor deal in public relations (6)
25 Defence reply with certain satisfaction (8)
26 About to consider buy-back (6)
27 Got annoyed after a close shave? Hardly (8)

DOWN
1 Tailless primate managed to communicate (6)
2 A good mixer showing no stress (6)
3 In final, attempt to go round (6)
4 Emotion expressed at rain during day-trip (10)
6 Inclination to put a diet off (8)
7 Away on holiday? That's rash (8)
8 Saw when first testing (8)
13 Down with alcohol (4,6)
15 Clever treatise gives pests a lot of stick (8)
16 Broke the rules, but not on final edition (8)
17 Lack brief on a case of genocide (8)
19 Fights fools squeezing credit (6)
20 Ceremony where titular head is deposed and replaced (6)
21 Accepted hunger after midday (6)

Solution 9,795



هكذا من الاصل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (FSA RECOGNISED)

[illegible]

Royal Bk of Canada O/S Fd Mgrs Ltd

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (FSA RECOGNISED)

[illegible]

ABN AMRO Global Liquidity Funds Plc

Aberdeen Prolific International Fund Plc

[illegible]

Morgan Grenfell Investment Funds Ltd

[illegible]

Morgan Grenfell Investment Funds Ltd - Contd.

Citizens Investment Trust Mngt Company

City of London Investment Mgmt Co. Ltd

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (FSA RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (FSA RECOGNISED)

[illegible]

Perpetual Fund Management - Contd.

Prudential Fund Managers (Jersey) Ltd

Royal Bank of Scotland Fd Mgrs (Jersey) Ltd

Royal Bank of Scotland International Ltd

[illegible]

JERSEY (REGULATED)(**)

[illegible]

LUXEMBOURG (FSA RECOGNISED)

ABN AMRO Funds

[illegible]

Liffe to decide on electronic trading soon

[illegible]

BLOTTER PAD

CROSSWORD

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

Royal & Sun Alliance Intl Financial Srvs

Asia Debt Management Hong Kong Ltd

Coutts Fund Managers Ltd

Indocam Asia

Magnum Funds - Contd.

PRS International

Scottish Asset Management Inc

Scottish Provident Intl Life Ass Ltd

OTHER OFFSHORE FUNDS

AXA Asset Management

Jardine Fleming Unit Trusts Ltd

Global Asset Management - Contd.

Jardine Fleming Unit Trusts Ltd - Contd.

The American Trust Bank

Apex Bank & Trust Company

Credit Agricole/INDOCAM

Global Asset Management

Scudder, Stevens & Clark Inc

Temple Bar

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Allied Domecq	†‡	424¾	-2¼	648	339	1,720	5.8	10.4
Bulmer (HP)		368½	-8½	495½	235	18	6.7	13.2
Burn Stewart	‡	11	—	53½	8½	43	19.3	–
Diageo	53‡	497	-21	795	432	17,194	4.1	14.7
Glenmorangie A		887½	—	975½	725	–	2.2	12.8
B		887½	—	1090	830	–	1.0	41.8
Highland	†	236½	+2½	325	225	18	4.8	10.9
5¼pc Cv Sb Bd		93	-2	99½	85½	–	6.4	–
Kirin Y		483¼	—	588	415¼	–	1.1	–
Matthew Clark	‡	121½xd	-4½	368	121½	78	13.4	4.1
Merrydown		34	—	74½	32½	–	–	ϕ
Seagram C$		£19⅜	+⅛	£28¼	£18⅞	–	1.3	–

CONSTRUCTION - Continued

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Tay Homes	‡†	121	—	166½	110½	–	7.9	9.9
Taylor Woodrow	‡	167xd	+4	238	133½	147	3.7	10.9
Tilbury Douglas	‡†	236½	-2½	308	190	225	5.3	13.6
Try	†	18	-½	28¼	17½	45	6.7	5.3
VHE	‡	74½xd	—	112½	69½	–	2.5	14.4
Vibroplant	‡	61xd	—	88	60½	–	8.3	–
Wardomes	‡	107½	—	138½	90½	20	5.6	ϕ
Ward Hldgs	‡	30½xd	—	60	27½	–	9.0	–
Westbury	‡	168	—	272½	161½	–	5.5	7.2
Whatman Group	‡	11½	—	16	9½	903	–	16.8
Wilson (Connolly)	‡†	115½xd	+½	191	108½	743	6.1	8.0
Wilson Bowden	†	509	+½	733	493½	98	3.3	9.2
Wimpey (G)	‡	84½	+2	143½	81½	728	7.5	7.8

BANKS, RETAIL

[illegible]

DISTRIBUTORS

[illegible]

ENGINEERING - Continued

[illegible]

FOOD PRODUCERS - Continued

[illegible]

INSURANCE - Continued

[illegible]

INVESTMENT TRUSTS - Continued

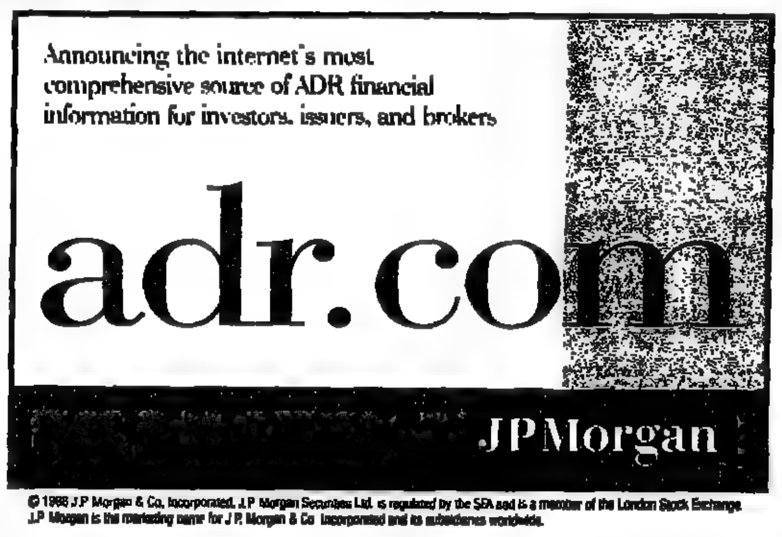
[illegible]

INVESTMENT TRUSTS

[illegible]

GAS DISTRIBUTION

[illegible]



BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ENGINEERING - Continued

[illegible]

HEALTH CARE

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING, VEHICLES

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

CHEMICALS

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

CONSTRUCTION

[illegible]

ENGINEERING

[illegible]

INSURANCE

[illegible]

FOOD PRODUCERS

[illegible]

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

Net asset values supplied by BT Alex. Brown International as a guide only. See guide to London Share Service

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AIM

AIM - Continued

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

GUIDE TO LONDON SHARE SERVICE

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion.

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The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

Global pressures reverse Footsie's early gains

MARKET REPORT

By Peter John

At first it looked like Alan Greenspan had pulled it off again.

Comments on inflation by the chairman of the US Federal Reserve led to a rise of more than 3 per cent in the Dow Jones Industrial Average late on Wednesday and a consequential jump of more than 100 points in the Footsie first thing yesterday.

However, severe concerns about a US hedge fund, data showing the worst UK manufacturing output for five and a half years and the announcement of big losses for one of Switzerland's most established banks proved too much.

The FTSE 100 index turned around and slid back throughout the morning and afternoon to close 47.1 lower at 5,167.6 after a two-day rise of 224.4 points.

Evidence that the pressure was more macro-economic than UK-generated came from the more domestically-based indices. Both the mid-cap and small indices ended higher on the day. The FTSE 250 rose 16.1 to 4,580.3 and the Smallcap edged ahead 0.2 to 2,032.8.

The first blow to the London market was the revelation that Long-Term Capital Management, the US hedge fund, was being bailed out to the tune of $3.5bn.

On its own, the rescue operation was not significant but as a taste of things to come it was seen by one strategist as "a harbinger of systemic risk that is now becoming very scary".

And Richard Coleman, financial analyst at Merrill Lynch said: "There are several thousand hedge funds in the world. How many more of them need to be bailed out?"

Shortly afterwards, the Confederation of British Industry presented data that pointed to slowing domestic demand and export orders at their lowest level since 1983. The combined figure was, said the CBI, the most negative since February 1993.

The data were largely in the market and taken more as a disincentive for optimism than a reason to sell.

But they were followed at lunchtime by news that UBS, the Swiss bank, was to make an announcement shortly before the close of UK trading. Speculation ranged from the bank making a bid for a rival such as JP Morgan or Morgan Stanley to news of big losses linked to the US hedge fund problems.

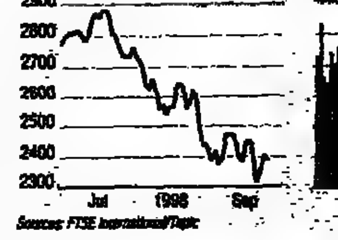
In the event, UBS came out with a warning, which sent a shudder through investment banks already worried about their own trading picture, of wide-ranging losses.

"For anyone working in this industry," said Richard Kersley of CSFB, "one finds it a sobering experience."

The general picture was not encouraging UK funds to pick up stock and one head of sales trading suspected the big institutions had decided to write off the current quarter and sit on their hands until the final quarter opens in a week's time.

Nevertheless, there were buyers around – particularly from overseas – to mop up the profit-taking, and two-way business saw volume jump to 1.15bn shares by 6pm, the top of the near term range. Turnover was boosted by some big tax-related trades in BTR and heavy switching in Tesco and Asda. Between them the three stocks accounted for more than 115m shares.

FTSE All-Share Index



Equity shares traded

Turnover by volume (million)

Sources: FTSE International/Topic

Indices and ratios

FTSE 100	5167.6	-47.1	FT 30	3112.3	-41.5
FTSE 250	4580.3	+16.1	FTSE Non-Fins p/e	20.13	19.64
FTSE 350	2464.1	-17.2	FTSE 100 Fut Dec	5230.0	-60.0
FTSE All-Share	2388.23	-15.74	10 yr Gilt yield	5.16	5.02
FTSE All-Share yield	3.28	3.38	Long gilt/equity yld ratio	1.55	1.47

Best performing sectors

1 Extractive Industries ... +4.2
2 Oil Exploration & Prod ... +2.2
3 Gas Distribution ... +2.1
4 Electronic & Elect Equip ... +2.0
5 Food Producers ... +1.6

Worst performing sectors

1 Chemicals ... -3.4
2 Alcoholic Beverages ... -3.3
3 Telecommunications ... -2.7
4 Retailers Food ... -1.8
5 Life Assurance ... -1.8

Diageo under pressure

COMPANIES REPORT

By Joel Kibazo and Martin Brice

Food and spirits giant Diageo lost an early bounce as figures in line with expectations were followed by a cautious outlook.

In the 12 month period to the end of June, the company reported profits of £1.85bn against £1.93bn.

Although the numbers were a relief, an analysts' meeting with the company did little to allay concerns over the company's operations in Latin America and Asia. There was also concern about the performance of the company's Pillsbury foods unit, which was expected to have a tough year because of pressure on its lower value-added products.

The shares, which peaked at 535p, fell to 488p before steadying to close 21 off at 497p, after trade of 17m.

John Wakely, a long-term bear of the stock remained unimpressed with the company's performance. He said: "I am pleased the market has been able to see through Diageo. The fact that in fiscal 1998 there appeared to be limited impact from emerging markets will make this year even more difficult."

The poor sentiment in Diageo spread to Allied Domecq leaving the shares 2¾ off at 424½p.

The ending of arbitrage pressure on Micro Focus combined with a bullish presentation to 30 institutions at Dresdner Kleinwort Benson to power the shares to one of the best performances in the market.

The shares gained almost 17 per cent, or 43½ to 300p as some 2.5m were traded. In recent months they had been under intense pressure because proprietary trading desks, particularly in New York, took advantage of the arbitrage opportunity offered in the terms of the takeover of Intersolv of the US. That takeover was completed yesterday.

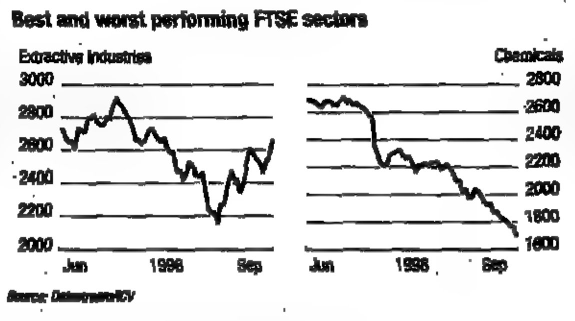
A presentation to institutions by Kleinwort's MidCap team and the support services analysts was accompanied by a strong "buy" note that set a price target on the shares of 552p.

News that US hedge fund Long-Term Capital Management was being bailed out at a cost of $3.5bn cast a shadow over UK financial stocks.

Market specialists initially attributed the slide in investment trust manager Perpetual to the events surrounding Long Term. However, one banking analyst said later that the retreat was prompted by a downgrade from Cazenove. The shares lost 485 or 15.41 per cent to £26.62½, the worst performer in the FTSE 250.

M&G Group was also out of favour, the shares declining 135 to £11.97½.

Best and worst performing FTSE sectors



Source: Datastream/ICV

Barclays drops

Among retail banks, Barclays reversed early gains after it confirmed it was part of a consortium of banks and investment firms that have agreed in principle to provide new financing to Long-Term Capital.

However, Barclays was said to have indicated it did not expect a negative impact on its own profit and loss account as a result of the move.

The prospect of a turn on the cycle of petrol prices prompted James Frost, the chairman of Save Group, to spend £2.85m on 4m of the company's shares yesterday.

The stock, which has come under severe pressure as competition on pump prices has increased, gained 3 to 76½p. It stood at 269p three years ago when the Price Watch promotion by Esso began.

Mr Frost, who made the purchase by exercising options at 72p a share, said the UK petrol retailing market was "set to produce an increasingly realistic return for the continuing operator" as Price Watch entered its final stages.

Ian Jermin, analyst at house broker Credit Lyonnais, said: "We believe prices will get back to pre-Price Watch levels in the medium term, and Save is likely to be a beneficiary of consolidation in the industry."

General demand for resource stocks made Billiton the best performing stock in the Footsie. The shares closed 8 up at 132p. Rio Tinto was also boosted by the same sentiment, the shares gaining 25½ to 691p.

Among food retailers, Asda declined 7½ to 167p, after Credit Lyonnais Securities cut its profit forecasts and downgraded its recommendation on the stock to "sell" from "hold".

The broker's profits forecast for the year to the end of April 1999 was cut to £410m from £430m and the following year's figure reduced to £430m from £470m. Turnover was 28m.

Credit Lyonnais remains a buyer of Tesco, also a busy trade with volume of 24m. The shares eased 4½¾ to 167p.

The extraordinarily high volume of 65m shares traded in BTR was accounted for largely by its buy-back programme as well as a big tax-related trade. Yesterday Cazenove bought 17.4m shares at about 111½p and a print of 25.1m went through the system first thing at 101.93p a share. The shares ended slightly lower at 111p.

LucasVarity started to see the benefits of its decision to move its domicile to the US as some 13m shares were traded amid a series of meetings with US institutional investors. Capital, the US investment group, said it had increased its stake in the engineering company from 4.3 per cent to 8.1 per cent. LucasVarity closed down 2 at 198p.

Engineering group FKI gained 5½ to 116½p ahead of a visit by institutional investors and analysts to the company's operations in Wales.

Enterprise rewarded

Renewed bid speculation combined with positive discovery news to drive Enterprise Oil 24½ ahead to 414½p.

Many analysts had expected attention to shift away from Enterprise after it fell out of the FTSE 100 this week. However, there are those who believe consolidation in the oil sector will continue and the UK oil and gas explorer is the most likely takeover target in Europe.

Schroders was reported to have initiated coverage of the stock with a favourable recommendation while Credit Lyonnais Securities is also a buyer.

Enterprise, along with its Norwegian co-venturers Saga Petroleum and Statoil, announced the successful appraisal of a gas discovery 70km from Achill Island off the west coast of Ireland.

Rival Lasmo was also in demand, the shares hardening 2 to 172p, in solid trade of 16m.

FT 30 INDEX

	Sep 24	Sep 23	Sep 22	Sep 21	Sep 18	Yr ago	*High	*Low
FT 30	3112.3	3153.8	3096.4	3038.2	3102.10	3276.5	3884.0	3110.3
Ord. div. yield	3.40	3.36	3.42	3.49	3.43	3.46	4.22	2.72
P/E ratio net	19.75	19.96	19.58	19.22	19.57	21.31	28.41	15.80
P/E ratio nil	19.67	19.88	19.50	19.14	19.49	21.02	28.19	15.71

FT 30 since compilation: High 3920.3 11/05/98, low 49.4 26/06/40 Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3153.8	3167.5	3167.8	3154.6	3144.5	3112.1	3135.3	3118.8	3212.3	3110.3

STOCK MARKET TRADING DATA

	Sep 24	Sep 23	Sep 22	Sep 21	Sep 18	Yr ago
SEAQ bargains	57,121	54,389	55,506	75,503	75,499	39,857
Equity turnover (£m)†	-	3196.9	2727.1	3051.7	3026.9	2903.2
Equity bargains†	-	43,321	41,414	44,042	44,490	41,519
Shares traded (m)†	-	907.8	771.1	830.3	871.9	1127.9
Total market bargains‡	-	58,226	52,711	61,459	70,799	-
Total turnover (£m)‡	-	4511.0	[illegible]	4233.4	4504.4	-
Total shrs traded (m)‡	*1180.4	1198.1	1062.7	1110.4	1207.9	-
Tradepoint turnover (£m)	37.6	30.6	14.1	13.9	25.4	9.1
Tradepoint shrs traded(m)	12.6	[illegible]	6.2	5.4	8.3	1.5

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	931	Total Highs	23	Total contracts	35,035
Total Falls	668	Total Lows	168	Calls	21,880
Same	1,352			Puts	13,155

Sep 24 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	5345.0	5230.0	-60.0	5395.0	5202.0	35768	206262
Mar		5273.0	-60.0			0	1943

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1998 High	1998 Low	Stock	Closing price p	+or-
520	Nil	28/9	4pm	3¼pm	Cammell Laird	3¼pm	
10.25	Nil	5/10	3¼pm	½pm	Tadpole Tech	½pm	
7	Nil	12/10	0.75pm	0.25pm	Ultima Network	0.25pm	

pm premium.

FTSE GOLD MINES INDEX

	Sep 23	% chg on day	Sep 22	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (27)	978.25	+2.7	950.41	1327.47	1.82	-	1538.45	701.58
Regional Indices								
Africa (9)	1000.55	-3.1	1032.79	1224.90	4.50	38.75	1525.29	765.63
Australasia (7)	1043.37	+0.1	1041.61	1435.47	0.30	7.38	1809.85	815.93
Americas (11)	964.70	+5.8	912.22	1380.85	0.61	56.56	1574.16	647.69

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Sep 24	Day's chge%	Sep 23	Sep 22	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5167.6	-0.9	5214.7	5103.3	5065.5	3.10	2.65	2.00	20.15	117.80	2277.27
FTSE 250	4580.3	+0.4	4564.2	4572.2	4719.2	3.91	3.32	2.08	15.39	106.63	1978.22
FTSE 250 ex Inv Tr	4623.5	+0.3	4606.0	4621.6	4727.8	4.06	3.46	2.14	14.39	110.47	2004.91
FTSE 350	2464.1	-0.7	2481.3	2437.9	2435.3	3.24	2.76	2.01	19.15	56.26	2210.65
FTSE 350 ex Inv Tr	2470.7	-0.7	2488.3	2444.6	2437.1	3.25	2.77	2.03	18.96	56.70	1141.10
FTSE 350 Higher Yield	2371.5	-1.1	2398.3	2355.3	2348.8	4.36	3.69	[illegible]	14.74	70.43	1628.92
FTSE 350 Lower Yield	2556.5	-0.2	2562.5	2519.1	2525.8	2.05	1.78	2.16	28.00	44.63	1657.67
FTSE SmallCap	2032.78	—	2032.59	2036.01	2306.66	[illegible]	[illegible]	1.69	16.38	46.18	1780.99
FTSE SmallCap ex Inv Tr	2021.35	-0.1	2023.82	2030.15	2285.31	4.31	3.50	[illegible]	14.63	48.46	1789.84
FTSE All-Share	2388.23	-0.7	2403.97	2364.37	2379.37	[illegible]	2.79	2.01	18.98	54.48	2182.20
FTSE All-Share ex Inv Tr	2398.21	-0.7	2414.65	2374.47	2381.52	3.30	[illegible]	2.02	18.70	55.12	1127.46

FTSE Actuaries Industry Sectors

	Sep 24	Day's chge%	Sep 23	Sep 22	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(22)	4125.61	-0.6	4148.66	3978.71	4965.27	3.58	3.21	1.68	20.78	97.43	1908.98
12 Extractive Industries(6)	2658.48	+4.2	2551.15	2517.89	4092.12	5.23	4.82	2.00	11.93	125.24	855.82
15 Oil, Integrated(4)	4744.88	-1.3	4807.61	4590.45	5330.53	3.44	3.06	1.65	22.02	98.59	2254.37
16 Oil Exploration & Prod(12)	2089.47	+2.2	2043.55	1987.92	3722.13	2.59	2.26	0.99	48.90	45.60	1306.90
20 GEN INDUSTRIALS(214)	1568.00	+0.2	1564.85	1560.49	2101.56	4.67	4.11	2.20	12.16	50.66	931.46
21 Construction(38)	1183.77	+0.8	1174.81	1179.72	1383.18	4.31	3.45	2.86	10.13	30.86	1065.35
22 Building Matls & Merchs(35)	1328.68	+0.5	1321.46	1313.44	1611.65	5.56	4.85	2.11	10.62	45.11	730.39
23 Chemicals(22)	1700.96	-3.4	1761.26	1769.25	2699.61	5.72	5.32	1.70	12.82	66.57	890.48
24 Diversified Industrials(7)	1045.98	+0.2	1043.78	1008.91	1492.04	5.52	5.14	2.04	[illegible]	[illegible]	[illegible]

[illegible]

Hourly movements

[illegible]

FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
3i	1,300	492	-11
AMVESCAP	3,800	382½	-½
ASDA Group	26,400	167	-7½
Abbey National	4,100	1089	-31
Alliance & Leicester	2,100	888½	+20
Allied Domecq	1,100	424½	-2¾
Allied Zurich	8,700	680	-4

[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Sep 24 / Sch)

BELGIUM/LUXEMBOURG (Sep 24 / Frs.)

CZECH REP (Sep 24 / Koruna)

DENMARK (Sep 24 / Kr)

FINLAND (Sep 24 / Mkk)

FRANCE (Sep 24 / Frs.)

GERMANY (Sep 24 / Dm.)

GREECE (Sep 24 / Drachma)

ITALY (Sep 24 / Lira)

NETHERLANDS (Sep 24 / Fls.)

NORWAY (Sep 24 / Kroner)

POLAND (Sep 24 / Zloty)

PORTUGAL (Sep 24 / Escudo)

SPAIN (Sep 24 / Pts.)

SWEDEN (Sep 24 / Kronor)

SWITZERLAND (Sep 24 / Frs.)

TURKEY (Sep 24 / TL Lira)

PACIFIC

JAPAN (Sep 24 / Yen)

HONG KONG (Sep 24 / H.K.$)

INDONESIA (Sep 24 / Rupiah)

MALAYSIA (Sep 24 / MYR)

NEW ZEALAND (Sep 24 / NZ $)

SINGAPORE (Sep 24 / S$)

SOUTH KOREA (Sep 24 / Won)

TAIWAN (Sep 24 / TW $)

THAILAND (Sep 24 / Baht)

AUSTRALIA (Sep 24 / Aust$)

AMERICAS

CANADA

TORONTO (Sep 24 / Can $) 4 pm close

MONTREAL (Sep 24 / Can $) 4 pm close

MEXICO (Sep 24 / Peso) 12:30pm

AFRICA

SOUTH AFRICA (Sep 23 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	WEDNESDAY SEPTEMBER 23 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	TUESDAY SEPTEMBER 22 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	172.81	1.0	152.24	148.93	151.39	198.71	1.7	3.77	171.16	150.70	146.33	149.92	195.31	238.24	163.86	236.33
Austria (22)	182.62	1.4	160.88	157.40	160.20	160.09	1.6	2.11	180.03	158.52	153.91	157.70	157.60	253.73	178.68	203.09
Belgium (22)	351.90	1.4	310.01	303.31	308.69	301.99	1.5	2.27	347.09	305.62	296.74	304.04	297.53	398.52	234.33	242.84
Brazil (32)	148.97	9.7	131.24	128.40	130.68	324.54	9.7	2.84	135.78	119.56	116.09	118.94	295.78	305.59	102.86	275.45
Canada (119)	185.70	3.7	163.59	160.06	162.90	203.07	3.5	1.96	179.07	157.68	153.10	156.86	198.21	248.78	167.16	224.93
Denmark (34)	442.05	1.5	389.42	381.01	387.78	388.01	1.7	1.69	435.35	383.33	372.20	381.35	379.57	537.33	389.69	389.69
Finland (28)	411.66	6.5	362.65	354.82	361.11	443.85	6.6	2.07	386.70	340.49	330.60	338.73	416.38	506.46	267.58	312.63
France (78)	282.08	2.1	248.50	243.13	247.44	250.36	2.2	2.51	276.38	243.35	236.29	242.10	244.90	345.18	217.50	234.08
Germany (55)	259.70	2.4	228.78	223.84	227.81	227.81	2.5	1.40	253.64	223.34	216.85	222.18	222.18	325.61	204.89	225.76
Greece (37)	258.29	-0.3	227.54	222.62	226.57	537.80	0.1	1.75	258.99	228.04	221.42	226.86	537.09	333.20	243.18	-
Hong Kong, China (66)	226.83	1.8	199.83	195.51	198.98	225.65	1.8	6.66	222.89	196.25	190.55	195.24	221.73	518.79	198.64	492.34
Indonesia (26)	20.28	0.9	17.86	17.48	17.79	137.77	0.7	4.75	20.09	17.69	17.18	17.60	136.82	156.30	19.04	152.90
Ireland (16)	430.81	2.3	379.52	371.32	377.91	409.50	2.5	2.32	421.13	370.81	360.04	368.89	399.35	560.44	359.60	365.75
Italy (54)	142.49	1.8	125.53	122.81	124.99	177.44	1.9	1.65	140.00	123.27	119.69	122.63	174.05	184.49	103.30	111.43
Japan (480)	79.56	-0.8	70.09	68.58	69.79	68.58	0.0	1.15	80.21	70.63	68.58	70.26	68.58	123.57	78.40	119.98
Malaysia (106)	105.98	-3.0	93.36	91.35	92.97	155.11	-3.0	3.69	109.29	96.23	93.44	95.73	159.95	319.52	73.52	308.45
Mexico (29)	1113.56	7.8	980.99	959.79	976.82	13324.19	8.3	2.21	1032.69	909.29	882.88	904.59	11375.61	1901.98	787.15	1853.69
Netherlands (27)	441.45	2.9	388.87	380.47	387.22	383.28	3.0	2.43	429.14	377.88	366.88	375.90	372.20	562.38	380.20	407.28
New Zealand (14)	45.68	-1.9	40.24	39.37	40.07	49.51	-1.0	6.20	46.54	40.98	39.79	40.77	50.00	95.87	45.68	91.64
Norway (37)	208.40	1.4	183.59	179.62	182.81	212.60	1.6	2.96	205.49	180.93	175.68	180.00	209.35	374.64	200.58	340.90
Philippines (22)	46.22	4.0	40.71	39.83	40.54	103.07	4.6	1.58	44.43	39.12	37.99	38.92	98.54	106.98	42.48	97.93
Portugal (18)	228.07	0.3	200.92	196.58	200.06	270.06	0.5	1.20	227.38	200.21	194.40	199.18	268.84	299.39	227.38	-
Singapore (41)	116.46	0.4	102.60	100.38	102.16	92.82	0.2	3.25	116.02	102.16	99.19	101.63	92.63	304.65	102.48	300.78
South Africa (39)	178.73	1.3	157.45	154.05	156.78	232.83	1.8	3.86	176.50	155.41	150.90	154.61	228.77	346.20	151.55	321.74
Spain (31)	320.11	6.3	282.00	275.91	280.80	347.60	6.1	2.20	301.16	265.18	257.48	263.81	327.56	417.73	236.28	265.56
Sweden (49)	454.77	3.5	400.63	391.98	398.93	531.46	3.6	2.22	439.16	386.69	375.46	384.69	512.99	628.18	430.92	519.18
Switzerland (28)	361.82	2.8	318.74	311.85	317.39	313.23	3.3	1.33	351.87	309.82	300.82	308.22	303.26	430.40	301.11	313.68
Thailand (36)	10.46	8.8	9.22	9.02	9.18	16.39	8.2	5.75	9.61	8.46	8.21	8.42	15.15	45.52	8.15	39.77
United Kingdom (209)	340.39	1.9	299.87	293.39	298.59	299.87	1.9	3.26	334.06	294.14	285.60	292.62	294.14	401.64	314.38	316.65
USA (622)	434.93	3.4	383.15	374.87	381.52	434.93	3.4	1.51	420.56	370.31	359.55	368.40	420.56	465.00	356.31	387.54
Americas (802)	387.99	3.5	341.80	334.42	340.35	328.97	3.5	1.54	374.91	330.11	320.52	328.41	317.90	437.03	326.79	354.23
Europe (745)	314.72	2.4	277.25	271.26	276.07	285.14	2.5	2.37	307.35	270.62	262.76	269.22	278.10	386.24	287.44	280.92
Eurobloc (351)	90.39	2.6	79.63	77.91	79.29	85.79	2.8	2.00	88.08	77.56	75.30	77.15	83.50	113.28	85.88	-
Nordic (148)	418.13	3.6	368.36	360.40	366.79	417.84	3.7	2.14	403.44	355.23	344.91	353.39	402.60	555.97	386.51	438.71
Pacific Basin (863)	85.06	-0.5	74.93	73.32	74.62	74.33	0.3	1.93	85.45	75.24	73.05	74.85	74.14	138.87	83.29	135.70
Euro-Pacific (1608)	180.75	1.8	159.23	155.79	158.56	153.68	1.9	2.25	177.87	156.62	152.07	155.81	150.80	220.19	172.03	190.31
North America (741)	418.24	3.4	368.45	360.49	366.88	419.17	3.4	1.52	404.38	356.06	345.72	354.22	405.32	469.20	349.06	377.48
Europe Ex. UK (536)	291.64	2.6	256.92	251.37	255.83	269.49	2.8	1.92	284.11	250.16	242.89	248.86	262.09	368.32	236.86	254.01
Europe Ex. Eurobloc (394)	86.58	2.2	76.27	74.62	75.94	84.89	2.3	2.74	84.74	74.61	72.45	74.23	82.98	103.93	89.13	-
Europe Ex. UK Ex. Eurobloc (185)	86.27	2.8	76.00	74.36	75.68	83.01	3.1	1.63	83.97	73.93	71.79	73.55	80.54	109.21	82.62	-
Pacific Ex. Japan (383)	139.85	0.9	123.20	120.54	122.68	149.95	1.3	4.69	138.57	122.01	118.47	121.38	148.05	277.07	128.28	272.37
World Ex. Eurobloc (2098)	89.79	2.7	79.10	77.39	78.76	90.19	2.8	1.83	87.46	77.01	74.77	76.61	87.74	103.16	83.83	-
World Ex. US (1827)	181.28	1.8	159.70	156.25	159.02	158.55	2.1	2.25	178.07	156.79	152.24	155.98	155.33	221.01	175.30	200.85
World Ex. UK (2240)	255.75	2.8	225.30	220.44	224.34	232.41	2.9	1.69	248.90	219.16	212.79	218.03	225.89	298.02	234.24	255.13
World Ex. Japan (1969)	353.89	3.0	311.76	305.02	310.43	344.10	3.1	1.93	343.50	302.45	293.67	300.89	333.62	411.23	309.33	331.01
The World Index (2449)	262.98	2.7	231.67	226.66	230.68	238.61	2.8	1.86	256.16	225.55	219.00	224.39	232.14	306.56	241.30	260.59

 WITH EFFECT FROM 1/10/98 Malaysia will be removed from The World Index under Ground Rule 2.1.1. Market closed 23/9/98: Japan. Latest prices were unavailable for this edition.

Emerging markets: IFC investable indices

Dollar terms

Sept 23 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	766.62	+8.8	-31.3
Brazil	299.33	+9.3	-38.0
Chile	402.10	+6.4	-37.4
Colombia[1]	323.65	+2.2	-50.8
Mexico	475.17	+7.2	-39.7
Peru[2]	134.98	+5.8	-39.2
Venezuela[3]	310.57	+7.0	-66.1
East Asia			
China[4]	27.89	+1.0	-49.6
India[7]	66.06	+1.0	-20.7
Indonesia[4]	9.36	-0.2	-72.2
Korea[3]	21.94	-0.0	-8.7
Malaysia	60.16	-2.7	-34.0
Pakistan[8]	108.88	+1.5	-56.2
Philippines	66.37	+3.3	-41.1
Sri Lanka[9]	83.10	+1.3	-45.8
Taiwan, China[4]	108.44	-1.2	-23.1
Thailand	37.21	+5.2	-20.9
Europe			
Czech Rep	42.83	+1.7	-21.7
Greece	466.17	-0.3	+43.9
Hungary[11]	189.82	+3.9	-39.7
Poland[12]	505.31	+3.4	-15.3
Portugal	251.63	+0.1	+19.3
Russia	15.49	+1.0	-89.5
Slovakia	53.08	-2.1	-46.5
Turkey[14]	149.39	+2.5	-52.1
Mideast/Africa			
Egypt	70.21	+0.6	-24.7
Israel	109.81	+0.3	-9.8
Jordan	222.85		+6.0
Morocco	183.15	-0.3	+40.6
S Africa[13]	118.53	+3.1	-34.1
Zimbabwe[15]	113.11	-3.0	-55.1
Regions			
Composite	162.36	+3.1	-34.0
Latin America	412.19	+7.8	-39.2
Asia	74.14	-0.8	-31.2
EMEA	103.43	+1.5	-30.0
Europe	124.17	+1.0	-34.1
Eastn Europe	45.01	+2.7	-67.9
ME & Africa	53.22	+2.0	-25.6

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 7 1995. Latest indices were unavailable for this edition.

Prices supplied by Exel, part of FT Information.

FT Free Annual Reports Club

4 pm close September 24

NEW YORK STOCK EXCHANGE PRICES

1998 High	Low	Stock	Div	Yld. %	P/E	Vol 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- A - - B - - C - - D - - E - - F - - G - - H - - I - - J - - K - - L - - M - - N - - O - - P - Q - - R - - S - - T - - U - - V - - W - - X - Y - Z -

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
‖ Dealings suspended.

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Sep 23	Sep 22	Sep 21	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	8154.41	7897.20	7933.25	9337.97 (17/7)	7539.07 (31/8)	9337.97 (17/7/98)	41.22 (8/7/32)
Home Bonds	105.92	106.00	104.94	106.05 (18/9)	104.42 (11/5)	106.05 (18/9/98)	54.99 (1/10/81)
Transport	2904.10	2885.29	2802.64	3686.02 (15/4)	2616.75 (4/9)	3686.02 (15/4/98)	13.23 (8/7/32)
Utilities	302.98	296.98	294.11	302.98 (23/9)	282.65 (9/1)	302.98 (23/9/98)	10.53 (8/7/32)

DJ Ind. Day's high 8198.43 (8038.23) Low 7891.79 (7816.87) (Theoretical)
Day's high 8180.59 (7996.94) Low 7885.45 (7933.79) (Actual)

Standard and Poors	Sep 23	Sep 22	Sep 21	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1066.09	1029.88	1023.89	1186.75 (17/7)	927.69 (9/1)	1186.75 (17/7/98)	4.40 (1/6/32)
Industrials‡	1266.37	1224.89	1218.75	1380.48 (17/7)	1077.40 (9/1)	1380.48 (17/7/98)	3.52 (30/6/32)
Financial‡	116.90	111.51	110.72	147.88 (14/7)	102.28 (10/9)	147.88 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	526.95	510.60	507.43	600.75 (17/7)	480.60 (31/8)	600.75 (17/7/98)	4.64 (25/4/42)
Amex Comp	846.06	833.45	828.33	763.67 (22/4)	555.97 (31/8)	763.67 (22/4/98)	524.20 (16/7/96)
NASDAQ Cmp	1760.27	1697.80	1680.43	2014.25 (20/7)	1499.22 (31/8)	2014.25 (20/7/98)	54.87 (3/10/74)
Russell 2000	376.00	368.24	362.64	491.41 (21/4)	337.95 (31/8)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	Sep 18	Sep 11	Sep 4	Year ago
Dow Jones Ind. Div. Yield	1.89	1.91	1.95	1.67
	Sep 23	Sep 16	Sep 9	Year ago
S & P Ind. Div. yield	1.37	1.40	1.43	1.50
S & P Ind. P/E ratio	31.07	30.41	29.54	25.42

US DATA

MARKET ACTIVITY — NYSE TRADING ACTIVITY — ACTIVE STOCKS — BIGGEST MOVERS — NASDAQ TRADING ACTIVITY

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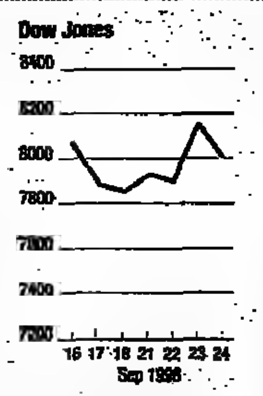
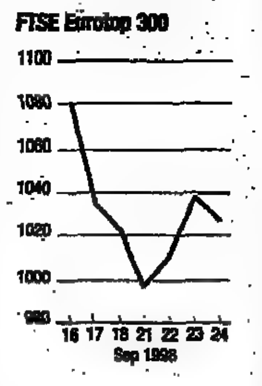
Dow Jones



FTSE Eurotop 300



JAPAN

Nikkei 225 — TOKYO TRADING ACTIVITY — ACTIVE STOCKS — BIGGEST MOVERS

[illegible]

GERMANY

DAX — FRANKFURT TRADING ACTIVITY — ACTIVE STOCKS — BIGGEST MOVERS

[illegible]

FRANCE

CAC 40 — PARIS TRADING ACTIVITY — ACTIVE STOCKS — BIGGEST MOVERS

[illegible]

UK

FTSE 100 — LONDON TRADING ACTIVITY — ACTIVE STOCKS — BIGGEST MOVERS

[illegible]

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	1077.30	1075.00	−2.50	1080.40	1069.50	114,188	384,512
Mar	1081.50	1085.00	−2.80	1086.00	1080.00	259	6,724
Nikkei 225	**Open**	**Sett price**	**Change**	**High**	**Low**	**Est. vol.**	**Open int.**
Dec	14100.0	14240.0	+750.0	14250.0	13940.0	25,375	167,802
Mar	13960.0	14180.0	−	14200.0	13950.0	33	−

CAC-40	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Sep	3527.5	3388.0	−47.0	3555.0	3380.0	125,180	182,127
Oct	3538.5	3397.0	−47.5	3555.0	3380.0	20,409	33,117
DAX							
Dec	4840.0	4650.0	−98.0	4874.0	4630.0	32,117	65,614
Mar	4889.0	4692.5	−33.5	4889.0	4754.5	19	1,013

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Sep	618.25	592.50	+2.50	625.25	591.00	79,552	50,875
Oct	621.00	595.00	−19.50	628.00	593.75	36,619	151,187
SOFFEX							
Dec	6481.0	6135.0	−214.0	6458.5	6135.0	40,903	133,036
Mar	−	6168.0	−	−	−	550	3,051

Open interest figures for previous day.

WORLD MARKETS AT A GLANCE

Country	Index	Sep 24	Sep 23	Sep 22	1998 High	1998 Low	Yield	P/E
Argentina	General	16580.94	16891.89	16847.27	23486.47 23/3	13303.14 10/9	4.01	13.30
Australia	All Ordinaries	2614.9	2573.8	2534.4	2881.40 18/4	[illegible] 1/9	3.56	17.80
	All Mining	582.0	576.1	566.0	713.10 23/4	489.88 31/8		

Jumped with bonds and A$ in anticipation of US rate cut. Banks and News Corp outperformed while resources lagged.

Country	Index	Sep 24	Sep 23	Sep 22	1998 High	1998 Low	Yield	P/E
Austria	Credit Aktien	(a)	366.11	361.39	584.34 26/5	386.17 3/9	2.09	11.40
	ATX Index	1117.47	1117.25	1087.10	1639.08 26/5	1073.28 21/9		

Closed little changed with hosiery leader Wolford off 5.3 per cent.

Country	Index	Sep 24	Sep 23	Sep 22	1998 High	1998 Low	Yield	P/E
Hungary	Bux	4805.89	4019.41	3531.60	9816.36 23/4	3775.02 21/9	na	na

Market surged almost 15 per cent with telecoms group Matav accounting for 70 per cent of day's turnover

Country	Index	Sep 24	Sep 23	Sep 22	1998 High	1998 Low	Yield	P/E
India	BSE Sens.	3225.90	3135.42	3095.25	4280.96 21/4	2882.55 1/9		
	Crisil 500	631.65	602.38	612.37	816.62 21/4	573.02 18/8	na	na

Asian rally sent shares higher.

Country	Index	Sep 24	Sep 23	Sep 22	1998 High	1998 Low	Yield	P/E
Indonesia	Jakarta Comp.	282.16	262.25	260.87	554.10 2/2	256.83 21/9	3.66	9.80

Soared on hopes of lower interest rates and news of agreement with Paris Club to reschedule $4.2bn of sovereign debt.

Country	Index	Sep 24	Sep 23	Sep 22	1998 High	1998 Low	Yield	P/E
Portugal	BVL 30	4332.22	4304.99	4275.90	8176.89 22/4	3979.27 21/9	2.27	21.10
	PSI 20	8657.50	8793.68	8712.46	14092.90 22/4	8031.84 21/9		

Edged ahead with Portugal Telecom gaining ground

Country	Index	Sep 24	Sep 23	Sep 22	1998 High	1998 Low	Yield	P/E
Russia	RTS	48.21	47.65	50.07	411.81 5/1	47.65 23/9	na	na

Ended lower after reversing early market rally

Country	Index	Sep 24	Sep 23	Sep 22	1998 High	1998 Low	Yield	P/E
Singapore	SES All-S'pore	235.90	277.34	276.69	437.88 19/3	253.20 4/9	3.10	13.20
	Straits Times	931.98	900.99	896.32	1668.75 19/3	805.04 4/9		

Property stocks soared 10.6 per cent amid hopes of lower interest rates. City Developments soared 15.7 per cent.

[illegible]

THE NASDAQ STOCK MARKET

4 pm close September 24

[illegible]

THE NASDAQ STOCK MARKET

[illegible]

AMEX PRICES

4 pm close September 24

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Greenspan launches shares on roller-coaster

WORLD OVERVIEW

World markets underwent a roller-coaster day yesterday as hints by Alan Greenspan, chairman of the US Federal Reserve, of a possible cut in interest rates led first to an upward surge in equity prices, followed by profit-taking and concern over bank exposure to global economic turmoil.

Mr Greenspan's remarks on Wednesday before a congressional committee prompted a big rally late that day on Wall Street, with the Dow Jones Industrial Average closing up 257.21 points at 8,154.41.

His comments, and Wall Street's rally, buoyed Asian stocks at the start of yesterday's trading.

In Japan, the Nikkei closed up 3 per cent at 14,205.78, even though the head of the country's main opposition Democratic party said it could not accept prime minister Keizo Obuchi's latest proposal on banking reform.

In Hong Kong, the Hang Seng index jumped 4.4 per cent while Thailand's SET index leaped 18.90 points, or 8.2 per cent, to close at 250.18.

European markets also opened bullishly, with many indices putting on more than 2 per cent in early trading, but then reversed to close sharply lower. Measured by their main stock market indices, Frankfurt fell by 2.36 per cent, Switzerland was down 2.46 per cent. Paris dropped 1.25 per cent and Milan was 1.07 per cent lower.

Europe had already been troubled by the overnight rescue of Long-Term Capital Management, the US hedge fund, thanks to a $3.5bn bail-out led by a group of American and international banks and co-ordinated by the US Federal Reserve.

That highlighted afresh the exposure of banks to financial market turmoil and market anxiety grew when UBS, the Swiss banking group, scheduled a news conference for after the closure of most European bourses.

Shares in UBS fell 11 per cent and Deutsche Bank nearly 10 per cent. UBS eventually announced it would take a third-quarter loss of up to SFr1bn ($700m) due to emerging market turmoil, a downturn in the equities business and its exposure to Long-Term Capital Management.

By the end of the European trading day, Wall Street was busily taking profits from Wednesday's rally, while the mood was more downbeat, focusing more on the potential for further international economic gloom.

However, some analysts saw scope for gains in the run-up to the US Fed meeting next week which will consider interest rate policy.

Banks tumble on Long-Term Capital woes

AMERICAS

Wall Street failed to follow through from Wednesday's strong rally, with plunging financial shares pushing the benchmark indices lower in early trading, *writes John Labate in New York.*

Enthusiasm for a possible cut in interest rates, after Federal Reserve chairman Alan Greenspan's congressional testimony on Wednesday, faded in the morning as profit-taking and earnings concerns set the tone.

Financial shares, especially in the banking sector, took a tumble as investors continued to sift through the fallout after the near-collapse of Long-Term Capital Management, one of the leading hedge funds.

Among those banks taking big hits were Chase Manhattan, down $3½ or 7 per cent to $46⅞, and Nationsbank, off $3¼ to $55⅝.

"It's a reminder to everybody of how substantial the losses can be when you are in a financial crisis," said Hugh Johnson, chief investment officer at First Albany.

By early afternoon the Dow Jones Industrial Average was down 87.28, a fall of more than 1 per cent, to 8,067.13. The Standard & Poor's 500 was down 14.31 at 1,051.78.

Less weak were technology and small-cap shares, lifted by renewed buying of internet shares. The Nasdaq composite fell 16.67 to 1,743.60 while the Russell 2000 index of small company shares came off 2.27 to 373.73.

Coca-Cola fell $1 3/16 to $57 after announcing plans for an analyst meeting on Friday to discuss the impact of the global economy on its third-quarter performance.

J.P. Morgan was off more than 5 per cent or $5¼ to $87 1/16. Morgan Stanley Dean Witter fell more than 9 per cent to $52½ after it reported lower third-quarter earnings.

Bucking the downward trend of the broader market, Bristol-Myers Squibb climbed $2 1/16 to $102 after Prudential Securities raised it to "strong buy".

Internet shares continued to climb with America Online up $2 to $117 1/16. The market's first IPO in weeks also made its debut. Shares of eBay, an online auction service, shot up to $49½, against an $18 flotation price.

TORONTO was pulled lower by Wall Street and the TSE 300 edged down 42.16 or 0.7 per cent to 5,972.90.

Of the 14 sub-indices, 10 were lower as investors remained cautious. Financial services fell 2 per cent with Canadian Imperial Bank down 70 cents to C$30.25. Bank of Nova Scotia lost 55 cents to C$26 and Royal Bank of Canada declined C$1.50 to C$65.60.

Utilities were down 1 per cent with Northern Telecom falling 60 cents to C$62.35 and BCE, the telephone group, 75 cents to C$49.50.

Gold and precious metals bucked the trend thanks to a rise in the bullion price in London. The sub-index rose 4.3 per cent, with Barrick Gold up C$1.30 to C$30.20.

São Paulo falls back

SAO PAULO retreated on profit-taking after its 11 per cent rally the previous day, and the Bovespa index fell 88 or 1.2 per cent to 7,193.

Declines on Wall Street also triggered selling. Enthusiasm over an international aid package which President Fernando Henrique Cardoso had called for also petered out in spite of a $1.1bn loan by the Inter-American Development Bank on Wednesday.

BUENOS AIRES edged higher after opening lower on profit taking. The Merval index, which posted two consecutive days of gains, rose 1.27 to 400.40.

MEXICO CITY lost earlier gains on profit-taking and the IPC index fell 70.41 to 3,831.78.

Foreign buying had supported earlier gains, but that was outpaced by investors trying to lock in profits.

SANTIAGO gained marginal ground on gains in Asia, with the IPSA index up 15.60 to 3,299.69.

Hedge fund fears hit Zurich

EUROPE

Shares in **ZURICH** gave up early gains as the market was hit by fears that Swiss banks had exposure to Long-Term Capital Management, the US hedge fund which will be bailed out by its creditors. The SMI index closed down 155.80 or 2.5 per cent to 6,168.70.

Investors were unnerved by an announcement by the Swiss Banking Commission, the industry watchdog, that it had called for leading banks to supply information on their exposure to LTCM.

UBS, which called a post-market press conference, fell SFr44 or almost 11 per cent to SFr365. After the market closed, the bank said it would post third-quarter losses of between SFr500m and SFr1bn because of losses in emerging markets and its equities business. It also said it would write down SFr950m stemming from investments in LTCM. CS Group declined SFr10.20 to SFr182.

Some blue chips which had risen in early trading lost ground by the close. Novartis fell SFr16 to SFr2,251 and Roche SFr250 to SFr15,250.

Insurance companies bucked the trend and held on to their gains.

Zurich Allied gained SFr10 to SFr790 while Swiss Re gained SFr66 to SFr2,924.

FRANKFURT also saw a steep slide for bank shares with sector leader Deutsche Bank off more than 9 per cent. As a result, the Xetra Dax index ended the electronic session with a decline of 111.62 to 4,611.34, a full 253 points short of the day's high.

The sellers moved heavily against the banks in early afternoon on the news that UBS of Switzerland planned a post-market press conference.

Deutsche Bank fell DM9.80 to DM93.80 and Dresdner Bank DM6 to DM69. Commerzbank gave up DM1.72 at DM46.58.

Computer leader SAP, buoyed by recent broker upgrades, ran into profit-taking, losing DM77.30 to DM851.70.

Mannesmann dipped 55 pfg to DM146.40 in spite of an upgrade to "outperformer" by BNP which takes a positive view of the group's telecoms operations.

PARIS ended within a whisker of its session low with the CAC 40 index down 37.30 at 3,386.48. The benchmark reached 3,544.59 in early trading, but heavy selling of banks and oils turned sentiment on its head.

The banks fell steeply on worries about contributions to the $3.5bn needed to rescue Long-Term Capital Management, the crippled US hedge fund. Paribas and Société Générale, which announced they would be taking part in the rescue, fell FFr20.20 at FFr364 and FFr26 to FFr744. BNP gave up FFr12.40 at FFr346.50.

Oils succumbed to profit-taking. A strong market lately on oil price gains, Total lost FFr50 or 6.7 per cent at FFr700 and Elf-Aquitaine FFr42 at FFr719.

LVMH fell FFr46 to FFr829 after a profit warning and a downgrade from Morgan Stanley Dean Witter which moved to "neutral" from "outperform". Hermès, in contrast, surged FFr37.10 or 11.1 per cent to FFr372.10 on strong first-half results.

Rhone-Poulenc announced that its Centeon blood plasma joint venture would shortly resume production and added FFr10.50 at FFr232 as a result. Merrill Lynch raised Pechiney to "intermediate buy", sending the shares up FFr12 at FFr173.

Advertising agency Publicis gained FFr60 or 6.7 per cent to FFr950 after reaffirming strong profits growth this year.

AMSTERDAM closed off 1.13 at 969.37 on the AEX index after a day of widely fluctuating share price movements.

Results enthusiasm at French steel rival Usinor, sent Hoogovens up Fl 3 to Fl 61.90. Lehman Brothers lifted Unilever from "outperformer" to "buy", pushing the shares up Fl 6.20 or 5.1 per cent to Fl 127.40.

Share buyback plans and news of strong progress within its life sciences division, lifted chemicals leader DSM Fl 3.20 to Fl 163.50.

Fallers were led by ABN-Amro, which came off Fl 1.50 or 4.1 per cent at Fl 35, and Royal Dutch, down Fl 2 at Fl 96.50. Fashion group Gucci tumbled Fl 5.20 at Fl 70.80 after a steep fall in Asian sales cut into second-quarter earnings.

MILAN fell victim to political uncertainty over the government's budget, and the Mibtel index lost 206 or 1 per cent to 18,987.

Banca di Roma, the most active issue of the day, fell L71 to L2,830 after rumours of a merger with BCI drove the shares higher in the morning. BCI fell L288 to L8,598.

RAS, the insurer, rose L287 to L16,686 after announcing a 67 per cent rise in first-half net profits to L276bn. Investors were encouraged by comments from the company that full-year results would also improve.

Fiat, which gained ground in spite of weak results, lost L124 to L4,459.

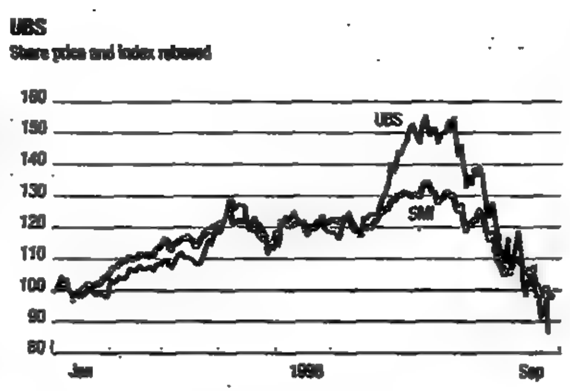
MADRID lost its early gains as Latin America-related shares fell back on profit taking, and the general index closed down 9.11 or 1.3 per cent to 702.

Stocks with Latin American business ties, which had rebounded earlier in the week, fell prey to profit taking. Banco Bilbao Vizcaya, which had risen 25 per cent since Monday, fell Pta130 or 7.9 per cent to Pta1,520.

BCH lost Pta15 to Pta1,330 while Santander declined Pta5 to Pta2,350. Telefónica, however, gained Pta10 to Pta5,430.

Utilities were firm with Iberdrola up Pta20 to Pta2,430 and Endesa adding Pta80 to Pta3,355. The industry ministry reached an agreement with the electricity sector for liberalisation and securitisation of costs. Credit Suisse First Boston reiterated its overweight recommendation.

Telepizza lost Pta40 to Pta1,050 in spite of a 46.5 per cent rise in first-half profits and an optimistic outlook for full-year results.



Source: Datastream/ICV

Written and edited by Jeffrey Brown, Emiko Terazono and Peter Hall

MARKET FOCUS

Sweden takes poll in its stride

The dismal showing for Sweden's ruling Social Democrats in Sunday's general election has left the country's stock market stirred, not shaken.

The prospect of a greatly weakened SDP government relying on the former communist Left party and small Green faction raised fears of share volatility and further pressure on the krona.

Although the market has reacted adversely to the poll result, talk of steep price falls and currency turmoil has proved exaggerated.

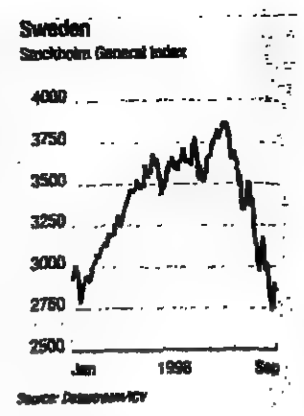
The Affärsvärlden general index has fallen 4.2 per cent this week and the krona has lost ground against the D-Mark.

But given that the index is down 16 per cent on the month and the krona has been bumping along the bottom of its historical trading range against leading European currencies, the election fall-out could have been far worse.

"The reaction has not been as violent as you might have expected, especially when you hear the communists are gaining influence," said Klas Eklund, group chief economist at Skandinaviska Enskilda Banken.

But he explains the modest market reaction by saying that most analysts had already discounted the prospect of a weaker SDP government before the election. Moreover, the financial community also recognises that the Left and the Greens – for all their political gains – will not derail the country's solid economic growth prospects.

Although the Left may be demanding public spending increases, it cannot force the SDP into a dramatic change of direction because of expenditure ceilings already agreed in parliament. And Erik Asbrink, the finance minister, has made clear there is very little room for any changes to the measures being finalised for the October 13 budget.



Source: Datastream/ICV

As Mr Eklund and other analysts point out, the only real threat posed by the Left and Greens will be if they force Mr Asbrink to tear up his public spending and inflation targets, or change the rules governing central bank independence.

It is clear that Mr Asbrink and Görnn Persson, the prime minister, would be reluctant to do that.

On the other hand, the business climate will not be improved by the likely postponement of income tax reforms and any changes in labour market deregulation.

The recent stock market decline owes more to difficult trading conditions and restructuring problems at particular companies, than a political malaise. Shares in Ericsson, Sweden's largest exporter, have declined more than 20 per cent on the month on fears it is losing ground to rival Nokia and its overexposure to Asia. Other liquid stocks, such as Astra and Gambro, have also been hit by trading problems.

"From the peak this year, the Swedish market has fallen in line with most other European bourses – down about 25 per cent," said Stefan Ortmark at Enskilda Securities.

"That decline has been about Asia and hard-hit industrial sectors."

Tim Burt

US rate hopes boost Tokyo

ASIA PACIFIC

Hopes that the US would soon lower interest rates sent **TOKYO** *sharply higher, although fundamental concerns about Japan's ailing banking system and corporate profits remained, writes Alexandra Harney in Tokyo.*

The Nikkei 225 Average rose 415.97 to 14,205.78. During the day, the index swung between 13,896.79 and 14,297.5. The Topix index of all first-sector stocks added 2.7 per cent or 27.84 to 1,078.01 in moderate trading.

Volumes were steady at 459m shares traded, with advancing shares outnumbering losers 871 to 296. In Osaka, the OSE index rose 444 to 14,892.

Fishing and forestry was the only sector to post a decline, falling 0.1 per cent. Banks were up 2 per cent, and other financial companies surged 4.6 per cent. Rubber products soared 8.91 per cent.

Steel stocks, electronics blue chips and banks dominated trading. Nippon Steel, the steel industry leader, was up Y12 to Y193, after hitting record lows earlier this month. NKK led the market in volume to close down Y3 to Y30.

Long Term Credit Bank, which is at the centre of a stalled debate over a plan to tackle the banks' bad and problem loans, improved Y3 to Y24.

Sakura Bank was up Y1 to Y225, and Fuji Bank gained Y7 to Y373.

Sumitomo Trust, which has agreed an alliance with LTCB, lost Y5 to Y352 after reports that the merger might be in trouble.

THE DAY'S CHANGES

	% change
Bangkok	+8.2
Jakarta	+7.6
Seoul	+6.5
Manila	+5.2
Hong Kong	+4.4
Singapore	+3.4
Tokyo	+3.0
Kuala Lumpur	+3.0
Wellington	+1.8
Sydney	+1.6
Taipei	+0.3

Electronics groups, which have sagged amid gloomy profits forecasts recently, rallied. Hitachi was up Y45 to Y610, NEC improved Y45 to Y926, and Toshiba climbed Y33 to Y504.

Tokyu Tourist was the day's leading faller, tumbling 15 per cent to an all-time low of Y110 on concerns about Japan's cash-strapped travel industry.

HONG KONG jumped on easing currency pressures which allowed interest rates to subside. Both local and mainland Chinese money market rates eased lower.

The Hang Seng index gained 330.22 to 7,834.61 after leading stocks rose strongly. HSBC added HK$6.50 at HK$144.50 and Cheung Kong put on HK$2.20 to HK$34.60. The red-chip and H shares indices rose 5.7 per cent and 8.5 per cent respectively.

JAKARTA responded to a better day for the rupiah and news of a rescheduling of $4.2bn of sovereign debt with the benchmark composite index rising 19.91 to 282.16. Turnover totalled Rp300bn. Tobacco giant Sampoerna gained Rp350 or 16 per cent to Rp2,100.

SEOUL pushed higher as foreign funds spent a net Won62.9bn, their heaviest single day purchase since May.

At the close, the Kospi index was up 18.82 at 310.75 with volume up more than 50 per cent on Wednesday's level at 80.5m shares. Samsung Electric surged more than 10 per cent, rising Won4,050 to Won37,950.

BANGKOK closed sharply higher as hopes of a rate cut in the US spurred heavy buying of blue chips. The SET index closed up 18.9 to 250.18 with entertainment, energy and finance stocks leading the way.

Comments by the Thai finance minister predicting an easing of bank lending rates spurred local buying.

Entertainment stocks jumped 5 per cent, energy gained 11 per cent and finance stocks added 10 per cent. National Finance rose Bt0.50 to Bt3.70.

Banks were the most actively traded, with the sector rising 5.3 per cent. Krung Thai Bank, the most active issue of the day, rose Bt0.70 to Bt7.10, and Bangkok Bank rose Bt0.75 to Bt23.75.

MANILA shrugged off the closure of Philippine Airlines (PAL) and the composite index closed up 60.56 to 1,220.25 in tandem with other markets in the region.

Financially troubled PAL was forced to close at midnight on Wednesday as long-running negotiations between management and labour unions collapsed.

PAL's closure boosted interest in Air Philippines International, which owns one of three leading local airlines. Air Philippines rose by its daily limit of 12 centavos to 36 centavos.

Philippine Long Distance Telephone, the market heavyweight, rose 85 pesos or 10.6 per cent to 885.

SYDNEY ended at its best level for more than a month with the All Ordinaries index up 41.3 at 2,614.9. Banks led the upturn, spurred by hopes of lower global interest rates. NAB rose 67 cents to A$21.55 and Westpac 33 cents or 3.5 per cent to A$9.78.

BRAZILIAN FINANCE AND INVESTMENT

Brazil's government must walk a treacherous path between a controlled slow down and recession, says **Richard Lapper**

Between a rock and a hard place

The way ahead: Mr Cardoso must not let market turmoil deflect him from addressing the deficit and poverty AP

President Fernando Henrique Cardoso has had a tougher September than he can possibly have imagined when he planned his campaign for next month's presidential elections. And the test has had little to do with the political challenge presented by the President's main opponent, Luiz Inacio Lula da Silva of the left-wing Workers Party. President Cardoso has enjoyed a comfortable opinion poll lead for most of the year but as the election day approaches, the campaign is little more than a sideshow to the bigger contest he is waging with international financial markets.

Since the Russian default and devaluation in mid-August, Brazil's stock and bond markets have been hammered and the country's reserves eroded at an alarming pace. Stocks fell by nearly 40 per cent from the beginning of August to September 21. Brazilian bond prices have slumped to their lowest levels since the Tequila crisis of 1995. Brazil has lost some $20bn in reserves in the same period. In response the government has cut spending by $4bn and increased domestic interest rates to nearly 50 per cent, well above the levels to which they were temporarily lifted last October, as the international financial instability began to spread beyond Asia.

The sharpness of the fall has put the government on a defensive footing and even raised questions about the survival of the Real plan – the exchange rate regime that has been the cornerstone of the country's counter-inflationary strategy since 1994. The plan – according to which the real trades against the dollar within a pre-set band and depreciates by 7 per cent a year – has been impressively successful in many respects.

Hyperinflation has been defeated. Only four years ago prices were increasing at more than 2,000 per cent a year, rendering any serious business planning impossible. In 1997 prices rose by only 3.4 per cent and, this year, inflation was down to 1 per cent in the 12 months to July. President Cardoso has continued to open the Brazilian economy to international competition – average tariff barriers fell to 14.4 per cent by 1995, less than half the level of 1990 – exposing Brazil's highly protected domestic industries to unprecedented competition and forcing through rises in productivity.

According to a recent study by McKinsey, the international management consultancy, sectors such as cars, airlines, steel, telecommunications, food retailing and construction saw double digit annual productivity growth between 1991 and 1995.

The government has accelerated the dismantling of the corporate state built up since the 1940s, by selling companies in the telecommunications and utilities sectors. Last year it raised $17.8bn through privatisations, compared with $14.8bn between 1991 and 1996. In July, Brazil successfully sold Telebrás, its giant telecommunications company, raising $19.3bn in Latin America's biggest ever privatisation.

Foreign investment has flooded into the country in other sectors as well. This year – in spite of the steep decline of the stock market – the international companies are expected to invest $22.5bn in Brazil.

The country's banking system has been strengthened. Following a string of takeovers in 1997 and 1998, well capitalised foreign banks – such as HSBC of the UK, ABN Amro of the Netherlands, Santander and BBV of Spain – have effective control of 19 per cent of the banking system, compared with 10 per cent at the end of 1996.

Many smaller and weaker banks have disappeared – between 1995 and 1997 31 banks were liquidated and 74 changed ownership – and regulation and supervision has been tightened.

Brazil's economic management is widely respected in both the national and international business communities. "It is a very good team, they are technically competent," says Roger Wright, managing director of First Boston Garantia. "They know what has to be done."

However, in spite of these successes investors have become increasingly concerned about two elements of the Brazilian economy: widening current account and fiscal deficits.

Since 1995, Brazilian imports have increased much more quickly than exports. Trade surpluses registered during the period between 1990 and 1994 have become trade deficits. According to Latin American Consensus Forecasts, a specialist publication, the trade and current account deficits will fall to $5.6bn in 1998 from $8.4bn in 1997, but the current account deficit will still amount to $30.4bn, nearly 4 per cent of GDP.

Until the recent turmoil, Brazil could count on a combination of direct investment and debt on the capital markets to finance this gap. However, over the past few weeks the premia paid by Brazil and other emerging market borrowers have increased and the markets will be effectively closed for many borrowers.

There are fears in some quarters that direct investment will begin to slow. "Financing commitments for new projects will have to be looked at again," says Floris Deckers, executive vice-president of ABN Amro, the Dutch bank which acquired Banco Real earlier this year.

Investors are even more concerned by the failure of the government to control public finances. The fiscal deficit has risen to 7.8 per cent in the 12 months to June, partially because of sharp rises in social spending by federal and state governments. In addition, though, the rise in interest rates since last October – and especially this month – has added to the burden. Interest payments on domestic debt amount to more than 6 per cent of GDP.

"The policy mix of loose fiscal policy, tight monetary policy and a strong currency is not sustainable," says Marcelo Carvalho, economist at JP Morgan in São Paulo. "In the international economic turmoil long standing economic challenges have come to the surface."

Two months ago – before the Russian default and devaluation – an electoral triumph for President Cardoso seemed to offer a relatively clear path through these difficulties. A new Cardoso administration would plan to start reducing the fiscal deficit to around 3 per cent of GDP within three years by raising taxes, cutting spending and introducing tougher pensions reform.

Continued privatisation – sales in the electricity and other sectors are expected to generate some $24.14bn in 1999 and $13.89bn in 2000 – would also help bring down debt. By convincing markets of the plan's credibility, the government hoped to be able to reduce interest rates and further ease fiscal pressure. Some economists suggest that a faster depreciation of the currency – increasing the current annual depreciation of the Real against the dollar from 7 per cent to possibly 11 or and 12 per cent might also form part of the strategy.

President Cardoso's electoral victory looks every bit as assured now – his opinion poll lead increased at the end of last week – as it did at the beginning of August but the plunge in the markets and erosion of reserves has made things much more difficult.

Already recent rises in interest rates have added to the scale of the domestic debt, increasing debt service payments by some R6bn a month, or nearly 0.7 per cent of GDP. The market turmoil will make it much harder for Brazil to finance its external deficit next year, which is likely to lead to a slow down in imports. This combination of fiscal and external pressures is expected to lead the economy to slow down. Growth is already expected to drop to 1.6 per cent cent in 1998 – from 3 per cent in 1997 – and Mr Carvalho is forecasting that the economy will contract by 2 per cent next year.

The problem though is that too sharp a reduction of economic activity could lead to a sharp decline in tax revenues, undermining fiscal plans and prompting further capital flight.

Brazil then seems to be poised between a controlled slowdown which would give it time to sort out its finances, on the one hand, and a potentially self-defeating spiral of fiscal austerity and recession on the other. Investors will be left to place a lot of faith in the government's positive past record in both managing and evading crises. As Mr Deckers observes: "They are very good cliff walkers."

PUBLIC FINANCES • by Richard Lapper

The bottom line

The priority is to tackle a deficit which has left Brazil hostage to turmoil elsewhere

Whoever wins Brazil's presidential elections next month, there is little doubt that the state of the country's public finances will be a priority for the new government.

Brazil's fiscal deficit has been the outstanding concern of foreign investors during recent turbulence on financial markets. And the failure to follow through on commitments to reduce the deficit after the Asia crisis first hit Brazil last October, is one of the main reasons why the country's markets have had such rough treatment this year.

Fund managers, investment banks and credit rating agencies have all highlighted both the scale and recent growth of the deficit as the main threat to economic stability.

"Fundamental weaknesses in public finances critically constrains Brazil's creditworthiness and could threaten financial stability if not addressed expeditiously by the President and Congress to be elected next month," says Lacey Gallagher, analyst with Standard & Poor's, the credit rating agency.

At the heart of the problem is a state apparatus that, in spite of recent reforms and privatisations, remains overstaffed and inefficient. This is, in part, a heritage of the corporatist development model, adopted by Brazil in the 1940s and 1950s. But, in addition, Brazil's federalist political system leaves many spending and tax raising decisions up to individual states, some of whose powers were enhanced by the 1988 constitution.

Including interest, payments and spending by the federal government, states, municipalities and public sector companies climbed to 7.8 per cent of GDP in the 12 months to June and, according to some economists, it could rise to more than 8 per cent by the end of the year.

The operating public deficit accounts for only about 1 per cent of this amount but has deteriorated significantly since 1995. According to figures published by Citicorp, the US bank, during the early 1990s Brazil registered a primary surplus but in 1995 the surplus declined to 0.36 per cent of GDP and was transformed into deficits – of 0.09 per cent of GDP in 1996 and 0.94 per cent in 1997. Although public sector companies remained in surplus – except during 1995 – both the central government (from 1997) and state governments (from 1995) fell into deficit.

This year, the government has found it difficult to control state spending in the run up to elections next month. But the critical issue has been the government's inability to control the mounting costs of a social security and pensions system, described by Ms Gallagher as "bankrupt and outrageously expensive".

The deficit of the publicly-funded system for private sector workers alone will reach 1 per cent of GDP in 1998 and – unless reforms are introduced – will rise to 2 per cent in 1999. In addition to that, however, obligations of state and federal government to public sector workers consume a further 5 per cent of GDP, with each retiree on average receiving $15,000, compared with GDP per head of only about $4,500.

Matters are made very much more complicated, however, by the structure and costs of servicing the country's internal debt. Over the last four years the government's gross debt has grown partially because it has assumed liabilities that were previously undocumented.

According to Felipe García, analyst in New York with IDEA, the economic consultancy, the debt increased from R179bn in January 1997 to R305bn at the end of July this year.

In addition, the government is paying more to service the debt. Interest rates were increased to 40 per cent in October last year, driving the interest bill up to 6 per cent of GDP.

Subsequently rates fell to less than 20 per cent but this year, as uncertainty grew with the crisis spreading to Russia, the government has been less able to persuade investors to buy its debt paper at a fixed rate of interest. Since May, it has issued more and more debt paper indexed to the overnight rate of interest.

Effectively, this has converted its obligations from a fixed to a floating rate. According to Standard and Poor's, the share of such debt doubled to 43 per cent of outstanding debt between May and June 1998 and has since increased to about two-thirds. As a result, rises in rates now have a much more direct and severe impact on the fiscal deficit.

This month's two interest rate rises – to 29.75 per cent on September 4 and to 49.75 per cent on September 10 – have cost it dearly, adding about R$6bn a month to the cost of debt servicing for as long as rates remain at their new level.

As well as their concerns about the scale and growth of the deficit, foreign investors have also been bothered by the government's lack of progress in tackling it. These concerns are all the more acute given the administration's failure to fully follow through on its commitments to cut spending, made in October in the wake of the first bout of Asia-related instability.

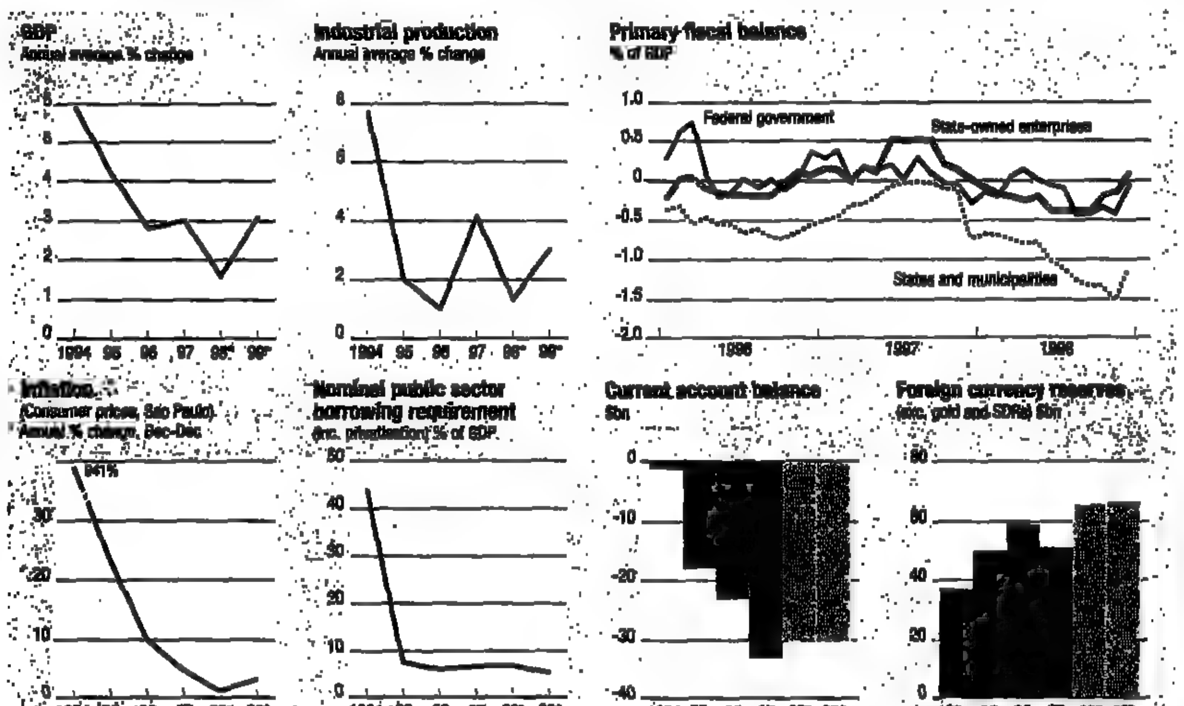
Nevertheless progress is being made. An administrative reform – the major aim of which is to introduce savings, efficiency, productivity and merit into public service – was approved by Congress in March. One of its most important planks gives the government more leeway to dismiss civil servants if the public sector wage bill of federal or state government exceeds 60 per cent of revenues. That reform alone could lead to savings of R$7bn – roughly 0.8 per cent of GDP – but these will take some time to come into effect. Citicorp says it believes "fiscal savings will only start occurring in significant amounts after 2000".

The Brazilian congress has recently agreed to speed up reforms of the pensions system, which is expected to yield gains – over the first 12 months – estimated at R$4bn.

And, earlier this month, the authorities made a legal commitment to increase primary budget surpluses over the next four years. The reform – which includes commitments to meet fixed targets was touted as part of a sea change in fiscal management.

Pedro Malan, the finance minister, leaves no room for doubt about his commitment to reform. "Brazil has no alternative but to carry out a fiscal adjustment that is credible, lasting and that, in reality, indicates that the federal, state and municipal governments cannot systematically incur expenditures that greatly exceed its tax collecting capability."

If Brazil fails it will only be "transferring the problem to the future, increasing the debt – internal or external – and running the risk of bringing back inflation", he warns.



Crisis talks: collapse in Brazil would be felt severely in the US AP

US fears loss of Rubicon in Latin America

The Americans are worried. Robert Rubin, the US Treasury Secretary, admitted last week that Brazil had been "the subject of intense attention" in the US Treasury.

"Whatever happens in Brazil is of enormous importance for Latin America and also for the United States," he told the House Finance Committee.

Until the end of July, some Wall Street types were arguing that the crisis had been a net benefit for the US. Sure, exports had been hit, but the crisis had helped to take some of the inflationary froth out of the US economy and extended the life of the bull market.

That complacency is fast disappearing. Economists realise that if there is a prolonged crisis in Brazil, the direct impact on economic activity in the US would be anything but negligible. One leading US banker describes Brazil as "the Rubicon" for the US.

US exports to Brazil have expanded rapidly since Brazil started liberalising its trade regime at the start of the decade. In 1997 the US had a trade surplus of $5bn with Brazil. As a result of the stagnation in Asian markets, many companies had been hoping for even faster growth in Brazil and Latin America over the next couple of years. And, with the US trade deficit already expanding and raising the protectionist pressures in Washington, a devaluation in Brazil would be particularly unwelcome.

Brazil is one of the main overseas markets for a whole range of US multinationals. Ford and General Motors are two of the main car makers in the world's seventh biggest market for vehicles. And companies from McDonalds to Monsanto are planning heavy investment programmes over the next few years. Foreign direct investment by US companies in Brazil last year alone was $4.6bn.

While European banks were at the frontline of lending to Russia, US banks have heavy exposures to Latin American countries. At the end of March, US banks had lent $27.2bn to Brazil, more than to either Canada or Italy. The US exposure to Russia was $6.8bn.

It is no surprise then that US commercial banks are prepared to put up emergency financing for Brazil. "If they were to ask for help, the response would be very positive," says William Rhodes, vice chairman of Citibank.

The effect on the US of a collapse in Brazil, which accounts for 45 per cent of Latin America's gross domestic product, would be magnified by the wider impact in the region. Argentina and probably Mexico, the next biggest economies, would also be plunged into recession, along with much of the rest of the continent which makes up 18 per cent of the US exports.

Edmar Bacha, one of the founders of the Real Plan and now special adviser at BBA Creditanstalt, one of Brazil's largest commercial banks, goes even further: "If Brazil goes, then Latin America goes. Without a swift recovery in Japan, this could push the world economy into recession."

Geoff Dyer

CAPITAL MARKETS • by Jonathan Wheatley

Growing pains

Macro factors are putting the markets through the mill on their way to maturity

It has been a vertiginous year on Brazil's stock markets, proving once again that the macro picture – be it on the national or, more often, global scale – far outweighs company performance in investor decisions.

On bond markets, too, the government's defence of the real with sky-high interest rates has pushed the cost of borrowing beyond the reach of many companies.

Against this background, the development of fully mature capital markets in Brazil is bound to be a lengthy process.

Some things, however, have changed over the four years since the introduction of the real. Low inflation and the rigours of a strong currency have brought new disciplines to the market, allowing companies to plan ahead and encouraging greater disclosure.

"We're seeing a gradual shift from the short-termism of the past to a more long-term outlook," says Robert van Dijk of Bradesco Templeton Asset Management in São Paulo, a joint venture formed between the Brazilian and US financial groups to manage assets for corporate pension funds. "Since the Asian crisis, the perception of risk in equity investments has become greater and that has produced greater demands for disclosure. In this sense, markets have been maturing quickly."

The quality of equity research has certainly improved. Several Brazilian investment banks have built strong reputations on the basis of their research. This has strengthened their appeal to foreign banks entering the country and helped in negotiating a string of buy-outs and joint ventures.

Authorities have also worked hard on improving the structure and credibility of capital markets. Regulations covering the separation of asset management and treasury operations among administrators of mutual funds, for example, have been introduced – although, in a typical example of what Brazilians call "accommodationism", their implementation has been delayed to give slower institutions time to prepare.

Horror stories are still common: of asset managers, for example, hiding profits from their clients and yet who, under existing regulations, are doing nothing illegal.

At a more prosaic level, capital markets still lack some of the basic structures to allow further development. For example, there are no ratings agencies to help assess the risk of corporate bond issues.

While such structures gradually fall into place, capital markets continue to be dominated by more global concerns.

One reason often given for the volatility of Brazil's stock markets is their concentration in a small number of highly liquid stocks. In the past, trading was dominated by Telebrás, the massive holding company for the public sector telephone network.

Telebrás was sold in July, having first been split into 12 new holding companies. This has reduced concentration to some extent, although the telecoms and, to a lesser degree, electricity and petroleum sectors continue to dominate the São Paulo Stock Exchange (Bovespa).

Another reason for the Bovespa's volatility, in fact, is its relative maturity. Because it has greater liquidity than exchanges in many other emerging markets – daily volume is typically about $600m to $700m – it offers the easiest point of exit for investors taking losses elsewhere, most recently in Russia.

The flight from emerging markets following Russia's debt moratorium in August consequently hit Brazil's exchanges harder than most. The Bovespa recorded its biggest daily falls in eight years, far outstripping its losses at the height of the Asian crisis. Investors' eagerness to get out forced stock prices down beyond any relationship to book value.

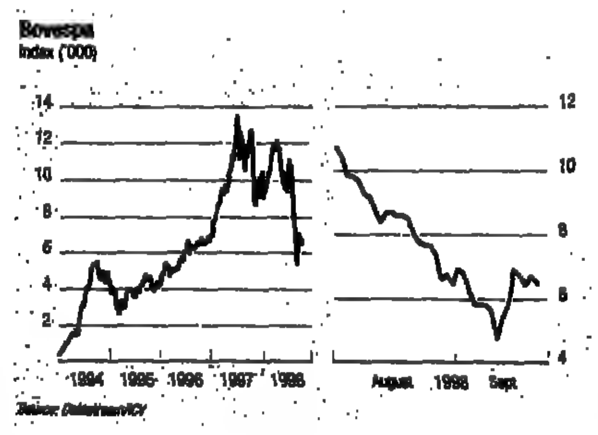
"Investors reduced their exposure to the absolute minimum," says Rodrigo Fiaes, head of equity research at Banco Icatu in Rio de Janeiro.

But the biggest reason for Brazil's vulnerability to global market turmoil is the imbalance in its public accounts. Its double deficits – a budget deficit of more than 7 per cent of GDP and a current account deficit of about 3.5 per cent of GDP – make stability dependent on the confidence of international capital.

"The perceived risk is very high," says Mr Fiaes. "When a country is trying to undertake structural adjustments at a time when it is dependent on external financing."

It was the flood of external finance from Brazil – foreign reserves plunged from $70bn to less than $50bn in a few weeks to the middle of this month – that forced the government twice to raise interest rates in the space of a week. These and other emergency measures appear to have gone some way to calming investors' nerves, at least temporarily.

But much more will be required of the government to convince investors that progress will be made on tackling public spending and the balance of payments. Without such progress, instability and immaturity will continue in capital markets, preventing them from playing their full role in the economy.



INVESTMENT • by Richard Lapper

A favoured nation

Foreign investors do not seem to share the doubts about domestic economics

Fund managers and transnational companies frequently take different views about investment prospects but the difference can rarely have been so marked as in Brazil this year. While the stock market has steadily tumbled, registering a fall of more than 40 per cent in the year to September, foreign direct investment has been flooding into the country, a trend highlighted by the successful sale at the end of July of Telebrás, Latin America's biggest ever privatisation.

But some bankers have begun to worry that recent sharp falls in the international capital market could begin to make it more difficult for companies to raise money for expansion, threatening the viability of some investment plans.

Not all of the R22.3bn ($19.1bn) garnered from the sale of the government's controlling stake in Telebrás, which was broken in to 12 operating companies, will come into the country this year. Telephone companies moving into Brazil – which include Telefónica of Spain, Telecom Italia and MCI of the US – have three years to pay, with 40 per cent due this year. And a substantial proportion of the investment – about 36 per cent according to analysts – has come from local companies.

Even so, the sale will help the total amount of foreign direct investment entering the country to exceed $20bn, reaching its highest ever level. In addition, according to Octavio de Barros, technical director of the Brazilian Transnationals and Globalisation Studies Society (Sobeet) in São Paulo, the influx will represent more than 2 per cent of GDP, compared to a previous highpoint of 1.5 per cent in 1975.

Privatisation is one of the driving forces. As well as the disposal of Telebrás, federal and state governments have begun the task of disposing of their assets in the electricity and gas sectors. The effort got off to a hesitant start when the sale of Eletropaulo, the São Paulo electricity distributor which is the largest in Latin America, was only partially successful.

But in early July, CESP, São Paulo's state-owned power generation company, successfully sold Elektro, another distributor to Enron of the US for $1.4bn.

This month the government sold Gerasul, the electricity generating company, and Bandeirante, an electricity distributor. Other companies scheduled for sale later in the year include Fepasa, the São Paulo's railway network. Economists at Citicorp in São Paulo estimate that total proceeds from privatisation will top $201bn in 1998.

Brazil has begun to open up its once protected financial sector to foreign banks. Since 1997 HSBC of the UK and Banco Bilbao Vizcaya and Banco Santander of Spain have acquired Brazilian banks and, in April, ABN Amro, of the Netherlands, agreed to pay $3bn to acquire a controlling stake in Banco Real.

One foreign bank executive says that there is a now a "more welcoming attitude towards foreign capital, competition and the transfer of knowledge".

In addition, foreign companies long established in Brazil have been investing in order to increase productivity and compete more effectively as the Brazilian economy opens up. Many have been encouraged to increase the scale of their activities as a result of continuing trade liberalisation within the South American region, linked to the development of the South American Common Market, or Mercosur.

Mr Barros estimates that at least 50 per cent of direct foreign investment this year has come from transnational companies already based in Brazil.

There were some signs in late August and early September that some of these plans might be revised in view of the extreme turbulence on world markets that followed the Russian devaluation.

Falls in Brazilian bond prices and sharp rises in yields, will effectively close the euromarket to Brazilian borrowers, predict investment bankers, and could make it both more difficult and more costly for international companies to finance their expansion plans in Brazil.

"I think foreign direct investment will taper off," says Roger Wright, managing director at First Boston Garantia in São Paulo. "A lot of people will slow down their investments. There will be less money to finance them."

So far there has been little sign of any slow down. Fiat, of Italy, which is Brazil's biggest industrial company, says it will go ahead with plans to invest $2.1bn over the next two and half years. "We chose Brazil as a priority outside Europe and we have to increase investment to improve competitiveness," says Roberto Vedovato, president of Fiat do Brasil.

Fiat, whose activities in Brazil range from banking and insurance to engineering, will finance investments from its own resources, he says.

Mr Barros entirely dismisses any negative impact and says that Brazil could even benefit from the international crisis if investors respond by becoming more selective about which markets they look to.

He also talks about a flight to quality within Brazil, which will benefit companies which generate strong cash flows, such as energy and telecommunications companies. "The power sector is a cash cow," says Mr Barros.

POLITICS • by Geoff Dyer

Cardoso in poll position

For the incumbent, winning the election may prove the easy bit

It has been easy to forget in Brazil in recent weeks that the country is in the middle of an election campaign. Since August, Brazil's financial markets have suffered various degrees of turmoil. Economic collapse has threatened and yet the opinion polls for October's general elections have shown a marked degree of stability.

Despite the economic uncertainty, Fernando Henrique Cardoso, the Brazilian president, has held on to his comfortable lead over his left-wing challenger, Luiz Inacio Lula da Silva of the Workers Party (PT). The most recent polls give Mr Cardoso a lead of 17 points over Mr da Silva, a margin which would assure him of more votes than all the other candidates put together, the requirement for outright victory in the first round on October 4.

Such forecasts are based on Brazil avoiding a forced devaluation before the elections, an outcome that cannot be ruled out given the intense pressure in financial markets.

However, if the government can withstand the short-term stress in the run-up to the poll, the result of the election will be crucial to the fate of the economy – it will determine whether the government will be politically able to take the tough decisions that will be needed to maintain stability.

In other words, how much political capital will the elections give Mr Cardoso to tackle the biggest thorn in the economy's side – a budget deficit of more than 7 per cent?

For Mr Cardoso's advisers, it is not just a question of him winning – if he is to build up the head of steam that he needs to advance his reforms, he has to win in the first round.

"In psychological terms, it is hugely important for Cardoso that he wins on the first round to give him political momentum," says Murillo Aragão, a political analyst in Brasilia.

Failure to win in the first round would drag the campaign out for a further three weeks, extending the period of political paralysis and economic vulnerability.

A second round of voting would also give Mr da Silva three weeks at the media centre-stage. Even though he would be unlikely to win, he would have an opportunity to undermine support for Mr Cardoso's economic strategy.

However, the outcome of the presidential poll will not be the only factor which will determine the post-election political atmosphere. Brazilians will also be voting for state governors, the whole of the lower house of Congress and a third of the Senate, in elections which could have a strong influence on national politics.

President elect: Mr Cardoso needs outright victory for a clear mandate to forge ahead with reform AP

In the 1994 state elections, the three most important governorships – São Paulo, Rio de Janeiro and Minas Gerais – all went to Mr Cardoso's Social Democratic Party (PSDB). However, according to the opinion polls, the PSDB could lose all three states in the elections (although it is making a late comeback in São Paulo).

While state governors only have a small formal role in national politics, the three big states provide more than 30 per cent of the members of the lower house of Congress. State governors can sometimes wield a powerful influence over at least a part of the delegation from their states because of the local patronage networks they operate. If all these states were occupied by, either, enemies or fair-weather friends of Mr Cardoso, it could significantly complicate his task.

The lower house elections will be closely watched as a measure of Mr Cardoso's leverage in Congress.

Pollsters expect the government coalition to maintain roughly the same level of support in Congress, although the weakness of the PSDB's gubernatorial candidates could lead the party to lose some ground there.

However, analysts believe the left opposition could make modest gains in the elections, which would ensure that Mr Cardoso's reforms will not be assured a trouble-free passage after the elections.

"Congress is not likely to be much more favourable to Cardoso after the election," says Carlos Lopes, another Brasilia-politics-watcher.

With the possibility of tough opposition in Congress and in the key states, much will depend on how skillfully Mr Cardoso manages the post-election environment. Having been criticised for squandering the honeymoon period after his first election, he will not want to repeat the same error.

In order to take the initiative, he is likely to call for a swift return of Congress after the elections. He might also push for a constituent assembly to operate next year which would allow constitutional reforms to be approved on a majority basis rather than the three-fifths vote currently needed.

To maintain investor confidence he has to show swift progress on the reforms aimed at cutting spending. That means completion of voting on the long-delayed pensions reform, winning approval for the regulations needed to implement the reform of the civil service and an extension of a tax on financial transactions.

Markets will also want to know more about any further changes the government has in mind for the social security system and its efforts to reform the tax system.

Mr Cardoso could find that the financial market crisis actually helps his legislative plans. In the past, the threat of economic chaos has served to concentrate the minds of wavering legislators.

However, he faces an uphill struggle. Investors are sceptical about his capacity to produce an effective package of cuts and to pilot them through a reluctant political system. Even if he can mould a convincing legislative agenda, it is not clear that he will be given enough time to implement it.

MULTINATIONALS • by Ken Warn

The great divide

Few Brazilian companies are ready, or able, to make the move overseas

Brazil's opening to the world economy has been very much a one-way affair. While foreign companies have been quick to see the potential of the vast Brazilian market, local companies have been slow to push abroad in the search for fresh business.

Shut off from external competition until recently, many Brazilian companies are complacently content to look for fresh opportunities on home ground rather than grasp the challenge of becoming regional or full international organisations.

Only a handful of Brazilian companies are internationally competitive or have a truly global presence, such as engineering and chemicals group Odebrecht, which last year derived a third of its revenues from international operations.

But, slowly, local companies are seeking to push into foreign markets and some are using neighbouring Argentina – a partner in the Mercosur customs union – as a testing ground for their expansion plans.

"For a long time we resisted the open, modern world," says Benjamin Steinbruch, chairman of CVRD, the world' biggest iron ore producer, which was privatised last year. "And in the past there was simply not sufficient private capital to form Brazilian multinationals."

CVRD, which includes steel-making and pulp and paper among its activities, is seeking to expand into the US and Europe, either by acquisition or partnership, according to Mr Steinbruch. The company already half owns a steel re-rolling mill near Los Angeles, which processes mainly Brazilian slabs, and majority owns a manganese alloy plant in France. It also has a small stake in Argentine steel mill Siderar.

Part-privatised energy concern Petrobras, the world's 15th-biggest oil concern, is also seeking to boost its international presence. Like CVRD it has the advantage of scale and the ability to muster significant financial resources.

Last year Braspetro, the group's international arm, agreed oil exploration deals in the North Sea and in Nigeria. The company is pursuing deepwater exploration and production rights in Azerbaijan and is active in a total of 11 countries.

Petrobras' presence in Argentina includes a stake in the huge joint-venture with Argentina's YPF and Dow Chemical of the US, to build a 38m cu metre a day gas processing plant. Petrobras and YPF are also about to open their first petrol service stations in each other's countries, as part of a plan to expand regional downstream activities together.

Smaller Brazilian companies, with no existing international presence, cannot simply transform themselves into international companies overnight. Even a move into trade partner and neighbour Argentina, an obvious first step, has its drawbacks.

With a population of about 35m, Argentina offers a comparatively small market, despite having the region's highest per capita GDP. The Chilean market is even smaller. Argentine and Chilean companies are also likely to offer tougher competition than many Brazilian companies have been used to at home.

"Despite the restricted size of the Argentine market, it can make sense for Brazilian companies to take a look," says José Piano, of management consultants Strat. "It can be a good first step into the region and is important from a management development point of view, helping create an internationally minded team in previously locally focused companies."

Latin American companies are increasingly seeking ways of expanding their regional presence and of becoming "*multilatinas*," if not fully fledged multinationals, he believes.

Mining, steel, tourism and agribusiness are the four main sectors where Brazil can be internationally competitive, says Mr Steinbruch. The food and drink sector has already seen high levels of interchange with Argentina.

Brahma, Brazil's biggest brewer, entered the Argentine market at the end of 1994 buying a brewery outside Buenos Aires. The company has rapidly built market share and now holds about 12 per cent of a market dominated by Buenos Aires-based Quilmes, with around 70 per cent.

Brazilian food group Sadia, which already sells its products in Argentina, is considering setting up a food processing plant there. In turn, Argentina's Arcor, which aims to become Latin America's leading confectionery group, is increasing its push into Brazil with the construction of a $50m chocolate factory in São Paulo, its third in the country.

One sector that has been surprisingly slow to expand into Argentina is banking. "Brazilian banks are very efficient. They have well-developed systems through coping with high inflation and one of the most efficient clearing systems in the world," says Mr Pano. "But they are still busy just exploring the potential of Brazil."

An exception is Banco Itaú, Brazil's second-largest private sector bank. Itaú had a small agency office in Argentina as far back as 1980, working in trade finance. But in 1994 it decided to take the plunge and expand into retail banking, anticipating the wave of foreign investment in the industry.

"We just thought that the potential to develop the market was enormous," says Antonio Carlos Barbosa, executive director of Banco Itaú Argentina. The company rapidly built a network of 32 bright, low-cost branches, trying to break with the image of queues and inefficiency that dogged Argentine banking.

This year, it bought the local Banco del Buen Ayre, with 60 branches and total assets of more than $500m, in a deal due to be completed by early October. The joint operation will have the fifth-biggest branch network in the Greater Buenos Aires area.

"The strategy is eventually to be a regional bank," says Mr Barbosa. "The Argentine experience could be useful internationally. But we want to consolidate in Brazil and Argentina before moving on. For other Brazilian banks, it may already be too late to expand here."

MOTOR INDUSTRY • by Richard Lapper

Foreigners drive on

Domestic demand and inward investment are maintaining modernisation

It is a measure of the changes sweeping through Brazil's motor industry that words such as empowerment and re-engineering spill easily from the lips of the hard bitten industrial manager that is Gábor János Deák.

From the spartan offices of Lucas Diesel in an industrial suburb of São Paulo Mr János, managing director, explains how pressure from customers – car and tractor manufacturers – has led his company to change the way it does business over the last five years.

The company – a subsidiary of Lucas Varity of the UK – has about a third fewer workers than it did five years ago, when trade barriers which have protected the motor and motor parts industry were first reduced.

Workers are asked to check their own work, rather than relying on foremen and inspectors, and many middle management jobs have been eliminated.

Many other functions have been outsourced – outside companies now package the company's products, guard its factory, serve food to it workers and service its computers. "It is a big cultural change," says Mr János. "It's nothing unique but we have had to become a very efficient company."

The story has been repeated across the motor and motor parts industry – and the process is likely to continue in spite of a sharp slow down in sales this year. Underpinning the change are trade liberalisation, rapid growth and high levels of foreign investment.

Trade barriers – erected in the 1950s – have been gradually reduced. The process has been particularly dramatic in the parts industry where tariffs were reduced to 20 per cent in 1994 and 7 per cent in 1997.

After a decade of stagnation car production rose by an average of 14 per cent per year between 1991 and 1997, mainly on the back of increased demand. Real wages rose by 22 per cent between 1991 and 1996 while reductions in sales taxes and, more importantly, the production of new lines of cars with smaller engines have made car-ownership a possibility for many more Brazilians.

Smaller cars – with engines of a litre or less in size – account for nearly three-quarters of all cars sold in Brazil, compared with 11 per cent in 1991. It has also become easier to buy cars on credit because economic stabilisation has paved the way for the development of a consumer finance market.

"People that didn't have access can now be potential customers," says David Wheeler, associate director in São Paulo for Bear Stearns, the US investment bank.

Mr Wheeler says that Brazil has only one car per 10 inhabitants, compared with one in 5.5 for Argentina and one in 1.2 in the United States. "There is a huge pent-up demand."

This combination of greater stability, openness and growth has attracted heavy foreign investment into the sector.

In 1997 Honda became the first new manufacturer to enter the Brazilian car market for 20 years. Mr Wheeler predicts that, by 2000, Brazil will have 17 vehicle manufacturers, the highest number anywhere in the world.

Traffic jam: investment in Brazil's motor industry will not be affected by economic turmoil AP

Announced investments in Brazil auto industry 1997-2000

Name	Units per year	Vehicle type	Location	Investments $m	Start-up date
Chrysler/BMW	40.0	Pick-ups/Motors	Paraná	575	Jan 98
Fiat	120.0	Cars	Minas Gerais	2,500	1999
Ford	100.0	Cars	Rio Grande do Sul	2,500	Dec 99
GM	120.0	Cars	Rio Grande do Sul	2,800	1999
Honda	15.0	Cars	São Paulo	150	Oct 97
Hyundai	20.0	Vans	Bahia	285	1999
Iveco	20.0	Trucks	Minas Gerais	240	1999
Kia	10.0	Light Trucks	São Paulo	50	1999/2000
Mercedes-Benz	70.0	Cars	Minas Gerais	820	Dec 98
Mitsubishi	6.0	Pick-ups	Goias	150	Dec 98
Navistar	1.2	Trucks	Rio Grande do Sul	120	Jan 98
Peugeot-Citroën	100.0	Cars	Rio de Janeiro	1,000	2000/2001
Renault	100.0	Cars	Paraná	1,500	Dec 98
Toyota	15.0	Cars	São Paulo	150	Aug 98
VW/Audi	160.0	Cars	Paraná	2,800	1999
Volvo	13.0	Trucks/Buses	Paraná	350	Mar 99
Total	1,032.2			16,231	

Source: Industry sources. Note for Fiat, Ford, GM, Renault and VW investments include investments in systems.

European and US components companies have made more than a dozen acquisitions in recent years and now control about 60 per cent of the components industry, compared with about a fifth seven years ago.

Their greater efficiency, combined with the tendency of motor manufacturers to deal with fewer suppliers, has prompted consolidation, reducing the overall number of components manufacturers by about a third.

Industrial promotion initiatives by Brazilian states is further increasing the attractions of the sector.

Traditionally centred around the ABC towns of São Paulo – Santo André, São Bernardo and São Caetano do Sul – the industry has become much more geographically diversified.

Wage costs in states such as Paraná, Rio Grande do Sul and Minas Gerais – where much of the new activity is concentrated are at least 20 per cent lower than in São Paulo, where trades unions have a much tighter grip over the labour force.

Analysts say that a series of planned investments will increase productivity and help make the Brazilian industry more internationally competitive.

According to Mr Wheeler, motor manufacturers plan to invest up to $16bn between 1997 and 2000, while investments in the components business could total a further $8bn.

Four companies – Ford, GM, Volkswagen and Fiat – are planning investments of more than $2bn while two others – Peugeot and Renault – have plans to invest $1bn or more. The new plants will make maximum use of just-in-time production techniques, automating relationships with components suppliers, for example.

In a recent report McKinsey, the management consultancy, said that "increasing exposure to best practice competition, coupled with the tremendous growth of recent years and the upcoming entry of several new vehicle assemblers and autoparts suppliers, is unleashing new competitive dynamics in an industry that until recently was known for its notoriously old models and low quality."

Against this background, auto manufacturers are dismissing a fall in production this year as a blip. Increases in taxes and interest rates in response to the crisis in Asia have hit demand and the economy has begun to slow. As a result, in the first six months of the year car production fell by 14.7 per cent compared to the same period of last year and sales to the internal market plummeted by 23.4 per cent.

However, production of buses and trucks rose as did exports, by 50 per cent in the first five months of 1998. Four car producers are among Brazil's top 10 exporting companies and, Mr Wheeler says it is likely that Fiat will top the list soon.

Similarly, fears that the new investments might be scaled back with the intensification of the financial crisis, after the Russian devaluation and default in August are being down played. "They will maintain these investments," says Jose Roberto Ferro, professor at the Fundação Getulio Vargas business school in São Paulo. "Most companies see this as a temporary crisis."

RETAILING • by Ken Warn

Rivals take stock

New technology, new companies and new stability have brought a new order

Market stall: small and unofficial traders dominate AP

Brazilian retailing has undergone a revolution in the 1990s. Economic opening at the start of the decade, combined with the stabilisation brought by the 1994 Real Plan, boosted consumer purchasing power and encouraged foreign entrants into the market. A rapid process of concentration ensued in what was a highly fragmented sector.

Competition has been particularly fierce in food retailing where sales topped $46bn last year, or more than 6 per cent of GDP. Wal-Mart of the US and Royal Ahold of the Netherlands have moved in alongside leading Brazilian retailer Pão de Açucar and overseas pioneer Carrefour of France. Portuguese retailers Jeronimo Martins and Sonae are also seeking to build a Brazilian presence.

However, the international financial crisis has fuelled economic uncertainty in Brazil. Consumers became much more cautious after interest rates doubled last October, with durable goods retailers especially hard hit.

This tougher economic environment may increase the pace of mergers and acquisitions as smaller companies strive for economies of scale while bigger chains intensify their battle for market share. But any prolonged downturn will eventually prompt the bigger operators to review expansion plans, according to Eduardo de la Peña, investment analyst at Bozano, Simonsen.

Before the introduction of the Real Plan, high inflation and economic instability stifled the sector's development. "Supermarkets lost money selling food but made money on their financial operations," says Antonio Carlos Borges, executive director of the São Paulo State Commerce Federation.

Most supermarket sales were in cash, which store owners quickly invested in the money markets, taking advantage of high interest rates during the 60-day gap before they were required to pay their suppliers. The business of providing value-for-money to shoppers was not a concern.

Money declined in value daily, so consumers spent their pay all at once, with no opportunity to compare prices. With the curbing of inflation, retailers were forced to make their sales operations more efficient.

Brazil had been effectively closed to foreign computer hardware and software until the early 1990s, meaning the industry had highly restricted access to modern retail technology. In 1989, only two Brazilian retail outlets had bar-code scanning technology at checkouts. This year the number is expected to rise to 8,000, according to estimates for the Brazilian Supermarket Association.

Pão de Açucar has spent heavily on technology, progressively introducing Electronic Data Interchange (EDI) with suppliers, along with fax and internet shopping services for customers. The company is locked in a battle for food retailing dominance with market leader Carrefour and has snapped up other outlets in an ambitious plan to double total sales from last year's 3.6bn Reals by 2000.

This struggle is overwhelmingly concentrated in Brazil's comparatively rich south. Indicating the concentration of retail investment, shopping mall construction has boomed in the 1990s but 80 per cent of malls are in the south and south-east, according to figures from Santander Investment.

Supermarkets and hypermarkets, with a high proportion of sales of basic necessities, have been largely insulated from the effects of the economic downturn. "Sales have risen 5 per cent in the past eight months," says Paulo Afonso Flejó, president of the Brazilian Supermarkets Association. For other retailers, things have not been so easy.

As interest rates soared, consumer durables outlets found themselves facing higher borrowing costs and rising levels of customer default. The pain has continued this year, with durable goods orders down 25-30 per cent in the first half.

Even before the crisis, managing credit posed a challenge to retailers, faced with high levels of default from people unused to having access to borrowing. Retailers widely accepted post-dated cheques from customers – granting credit on demand without carrying out any credit analysis.

Lojas Arapua, an electrical goods specialist, filed for protection from its creditors in June, after being hit by soaring bad loans. Lojas Americanas, Brazil's largest discount retailer, which carries a low percentage of food items, saw sales fall 8 per cent overall last year, tumbling 14 per cent in the last quarter, year on year.

The company stopped accepting post-dated cheques and has moved to cut costs and revamp its distribution network, says director Márcio Garcia de Souza. It also sold its 40 per cent stake in its, always uneasy, joint venture with Wal-Mart to the US company, at a loss, in an effort to refocus operations.

Despite the arrival of new technology and the drive for efficiency, productivity in food retailing is still only 14 per cent of US levels, according to Nicola Calicchio of consultants McKinsey. Smaller chains and "Mom and Pop" stores have been slow to take up the challenge of modernisation, dragging down average efficiency and suggesting huge scope for well-run, standardised store formats, he says.

High poverty levels, unequal income distribution and low car ownership also hold back retailing development across much of the country. In poorer areas, retailing is often informal, operating on the street or out of people's homes. Despite their inefficiencies, smaller retailers retain one key advantage – many operate in the black economy, paying no tax.

"I still see more international companies coming in," says Mr Calicchio. "There are big opportunities for consolidation. Brazil has around 700,000 points of sale and a majority have no more than four checkouts."

Retailers are pinning their hopes on increasing urbanisation, better wealth distribution, rising car ownership and growing participation of women in the workforce as powerful long-term trends driving development of the sector.

RICHARD DONKIN

High IQ is not enough

Universities have placed too much emphasis on conventional academic excellence

Two students are walking in Yellowstone Park when they come across a grizzly bear. The first, an Ivy league graduate from the top drawer of academic achievement, calculates that the bear can reach them in 17 seconds.

"We can't outpace him," he tells his companion, who is pulling on his running shoes. The other boy, who struggled to a get a degree in one of the minor colleges, says to his friend: "I don't need to outpace the grizzly, I just need to outpace you."

A version of the story is used by Robert Sternberg, professor of psychology and education at Yale University, to illustrate his ideas on intelligence.

"Both boys were smart," he says. But while the Yale student was intelligent in the conventional analytical way used to define excellence in universities, the second was intelligent "to the extent that you define intelligence as the ability to adapt to the environment".

Speaking to the Oxford Forum for Assessment and Development meeting in London last week, Prof Sternberg outlined three definitions of intelligence – analytical, practical and creative. The first type, he says, seems to be understood and emphasised by academic institutions. But the second two, he fears, have been neglected and ignored. "You need more than IQ skills to get through life," he says.

'There is no incentive to acquire creative or practical skills'

"In US society if you're good at IQ-like skills – the type of things that get you As in school – you are extremely highly rewarded by the system. These systems promoted you from an early age so there is no incentive to acquire creative or practical skills."

People, he argues, need an understanding of all three abilities. "Many people have good ideas that never go anywhere because they lack the practical persuasive skills to convince anyone of their worth," he says.

He describes three students he has encountered over the years. One is Barbara, who had good grades but fared poorly in the ability tests used by universities. Teachers' letters told the university selectors that she was remarkably creative but she was rejected and, as Prof Sternberg pointed out, "If you didn't get into one university, you didn't get into any". He recruited her as a research assistant. She produced extremely creative work and, after two years, was accepted on to the programme. "But what happens to other Barbaras who don't get hired?" he asks.

Another student, Celia, achieved reasonable test scores. Her work was good but not outstanding. However, she did possess very good practical skills that can prove important to those working at all levels.

It would have helped another student, Paul, who was outstanding academically but also arrogant; a feature he was unable to hide, says Prof Sternberg. Although he had lined up eight job interviews when he graduated, he was offered only one, and this was the poorest of all the opportunities.

So why does society reward some attributes and not others? Prof Sternberg has identified the existence of what he calls "closed systems" – self-selecting societies that shut out certain features.

The reason, he says, is that "it doesn't matter what system you have, it looks good once it's in place". Thus some societies may select on the basis of religion. If you belong to a certain sect you will succeed. You can then look around you at all the others in the same sect and conclude that their achievement is down to their religion, having, in effect, created a self-fulfilling prophecy.

It can apply to people's height, a noticeable feature of high achievers in the US. Chief executives, for example are, on average three inches taller than the people they supervise. Army generals are on average four inches taller than their troops.

The practice of exclusion has created too great a focus on one type of intelligence, says Prog Sternberg. Society should really be concerned with "successful intelligence", which combines the analytical, the practical and the creative,

enabling people to achieve success in life "given one's personal standards within your socio-cultural context".

This means, he says, it is important that people recognise and capitalise on their strengths, while correcting or compensating for their weaknesses.

Prof Sternberg's ideas must draw some recognition from employers who have complained for years about the quality and sometimes naivety of graduate trainees. This does not mean the graduates lack potential. They may never have been exposed to practical decision-making or creative thinking by their teachers or their families.

On the other side of the coin it also suggests that some young people who may be "street wise" and brimming with ideas never get beyond the job application stage. Part of the blame for this inability to select people with learning potential, says Steve Blinkhorn, an occupational psychologist, must be shouldered by the psychometric test producers who have become too focused on their own products.

"We should bring in a rule that people who run test training courses cannot use material they publish and then see how interested they are," he told the seminar.

Mr Blinkhorn, a leading critic of conventional psychometric tests and a proponent of a new type of testing that involves a "structured learning" component, says that test psychologists will be a "sad little group" if they fail to recognise that aptitude testing can be improved.

richard.donkin@FT.com

WORKING BRIEFS

CEO evaluation widespread in US but not yet in Europe – survey

Some 72 per cent of large US companies now carry out formal evaluations of the work of their chief executives, according to Korn/Ferry International's annual study of boards of directors.

Early findings from a similar European study, however, show that only 36 per cent of large European companies have introduced chief executive evaluation. Some 43 per cent of public UK companies assess their chief executives.

Pressure to carry out evaluations, says Korn/Ferry, is emerging internally as a result of increased use of performance management systems. Companies are also feeling external pressures arising from increasing shareholder activism and the demands of corporate governance. Korn/Ferry has issued a guide to effective chief executive evaluation.

Details: Ruth Grierson +44 171 312 3249

Knowledge cost

Knowledge management is starting to be taken seriously, according to a Cranfield School of Mangement report based on a survey of 260 European businesses.

One of the biggest problems, says Peter Murray, the research fellow who led the study, is that companies are confused about what is meant by knowledge management. However, this has not stopped businesses throwing increasing amounts of money at it. The average spend on knowledge management is 3.3 per cent of revenue, says the study, and it is expected to rise to 5.5 per cent in the next three years.

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Interested candidates are invited to seek further particulars from Mr Grant Baird, Chief Executive and submit a cover letter and curriculum vitae by Friday 16th October to Sir John Shaw, Chairman, Scottish Financial Enterprise, 91 George Street, Edinburgh, EH2 3ES.

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Enron Corp., *is one of the world's largest integrated natural gas and electricity companies with approximately $28 billion in assets. It operates one of the largest natural gas transmission systems in the world, markets natural gas liquids world-wide, is the largest purchaser and marketer of natural gas and is the largest non-regulated marketer of electricity in North America, manages the largest portfolio of fixed-price natural gas and power risk management contracts in the world, and is among the leading entities arranging new capital to the energy industry.*

Enron is also one of the world's most innovative and successful developers of energy projects and energy solutions, including power plants, natural gas transportation and storage facilities, and gas liquid plants. Enron has 16,000 employees, and operations and projects in 30 countries.

Enron Europe, *a subsidiary of Enron Corp., is an innovative provider of energy merchant services, including physical and financial markets of electricity and natural gas products, risk management products and financing for third-party energy companies.*

Despite current uncertainties in the emerging markets, there continues to be demand in Eastern Europe, the former Soviet Union, and Central Asia for the development of energy infrastructure, trading and risk management expertise. Therefore, Enron is continuing to expand its already extensive presence in the region through the appointment of several key individuals to join active project development and origination teams. Ultimately, the focus for these positions will be to seek out and develop capital projects of the type and profile which are consistent with Enron's objectives and fit the strategic portfolio. The scope of this activity may include mergers and acquisitions, commodity trade financing, and alliancing and partnering where appropriate synergies exist. Further responsibilities will be to introduce Enron's financial instruments and merchant products, into the markets concerned, and to strategic investors in the region.

These roles will be attractive to individuals who have proven experience either in an energy finance, project finance, trading or project development capacity with a recognised international financial institution, energy company or trading house. These individuals will have at least five years' experience of successfully operating in emerging markets, preferably those of the former Soviet Union and Eastern Europe. Experience working directly with an indigenous energy company, or for an international financial institution, or consultancy active with such companies in the region is seen as highly desirable. A relevant first degree with a Master's Degree or MBA from a respected institution is essential. English, in addition to fluency in one or two of the languages of the region, is mandatory.

Interested applicants should apply by sending a complete curriculum vitae to Preng Selection, the executive selection subsidiary of Preng & Associates.

Nicola Hollyoake, Preng Selection, Langham House, Suite 104, 29-30 Margaret Street, London, W1N 7LB. E-mail: nicki@preng-uk.com or Fax: +44 (0) 171 580 1444.

ENRON

Directors Managers & Associates

Russia, Central Asia and Eastern Europe

Based London/Moscow

Private Equity

Associate

Southern England
Bristol Based

Competitive Package
Bonus Incentives

NatWest Equity Partners is a leading provider of private equity for businesses across the UK and continental Europe. We have approaching £2 billion under management and a growing pool of funds from third party investors

We are seeking a high calibre candidate to join our Bristol-based team as an Associate to develop our business in Southern England.

The role will provide an opportunity to work in all aspects of private equity including:

- originating, assessing and negotiating new investments,
- conducting due diligence and
- post investment portfolio management.

The successful candidate is likely to be a chartered accountant with a flair for marketing and at least three years' lead advisory or investment experience gained within a leading firm of chartered accountants, investment bank or private equity fund.

The attractive renumeration package includes a company car, financial sector benefits and relocation assistance.

Candidates should apply in writing with full CV and remuneration details to:
Gail McManus, PER, 212 Piccadilly, London W1V 9LD, quoting Ref PER 302
Tel: 0171 917 9486, Fax: 0171 917 9488, e-mail: perecruit@compuserve.com

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NatWest Equity Partners

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Recruitmen

The FT IT Recruitment section is also available all week on

LIFFE FLOOR TRADING MANAGER

Candidate must have proven record to control and manage operations in the specialised area of trading between the Futures and Options pits and the ability to bring in new business. An understanding of option hedge trading is desirable.

Experience gained on exchanges other than LIFFE and a proven ability to work with non-UK based clients is essential

Write to Box A6228
Financial Times
One Southwark Bridge
London SE1 9HL

Aros SECURITIES

Financial Research Editor

Aros Securities is a Nordic equity-oriented investment banking firm, headquartered in Stockholm, with offices in Copenhagen, Helsinki, Oslo, London, New York & Tokyo.

London Branch is looking for individuals with a financial, publishing or news background to work with analysts in the production of research for institutional investors.

You will need strong communication skills to layout, edit and proofread a range of reports to our clients. Experience of Microsoft Office is essential and knowledge of PageMaker desirable.

Competitive compensation package available.

For enquiries call Ulrica Slane:
Aros Securities on 0171 711 5283
or send CV to:
Carole Allum, Aros Securities,
107 Cheapside London EC2V 6DA

ACCOUNTANCY APPOINTMENTS

Group Chief Accountant

Substantial international investment management group

Monaco – Excellent Package

■ *Our client is a privately owned, Monaco-based investment group, managing assets across a wide range of classes and geographical locations, with particular emphasis on global securities markets. The group is expanding its base of worldwide investments and is seeking to recruit a Group Chief Accountant to join its small executive team.*

■ *This is a new role where your remit will be to restructure the existing financial control systems and procedures as well as recruiting additional high calibre accounting staff. On a day to day basis, you will be responsible for the preparation of financial and management accounts and monitoring of group financial resources, which will include the execution of complex financial transactions. You will provide input to investment appraisal projects and operate as a key member of the management team contributing in all business matters.*

■ *As this is a complex business environment, you must be a chartered accountant with several years post qualification experience and possess first class financial management skills. Your business experience should have been gained in finance and you should have undertaken at least one overseas posting or secondment. Enthusiasm, discipline, leadership and excellent interpersonal and communication skills are necessary to operate as part of a small, highly professional and successful team.*

■ *This demanding role is best suited to someone who excels in an entrepreneurial and fast-moving environment. It will be a well rewarded, challenging position requiring a high degree of dedication and commitment.*

To be considered for this position please send your curriculum vitae with current salary details to Paul Modley, Ernst & Young Executive Search & Selection, Rolls House, 7 Rolls Buildings, Fetter Lane, London EC4A 1NH, quoting reference PM283. Fax 0171-931 1022 or e-mail: pmodley@cc.ernsty.co.uk

ERNST & YOUNG

The United Kingdom firm of Ernst & Young is a member of Ernst & Young International

Finance Director

Business Services Provider

West London – c. £50,000 + benefits

■ *Our client provides a broad range of business services to corporates and multinationals in the UK. Operating from several locations, the company employs over 150 staff and has doubled its sales over the last two years to £45m. As part of its continuing strategy for economic growth, the company plans to expand both organically and by acquisition, with a flotation anticipated within 3 years. The Board now wishes to appoint a Finance Director with the commercial flair to play a leading role in the future expansion of the organisation.*

■ *Reporting to the Group MD, the successful candidate will be responsible for the accounting and financial administration of the company. Additionally the FD will play an integral part in the process of acquisition and post-acquisition integrations. As a senior member of the management team, this high profile role offers an exciting opportunity for personal achievement and career advancement.*

■ *Suitable candidates will be well educated, qualified accountants, with relevant post qualifying experience which will include experience of managing a finance function and flotations. Communication skills, a positive management style and a genuine excitement in the business are pre-requisites.*

To be considered for this role, please send your curriculum vitae with current salary details and an explanation of how your experience meets the above requirements to Paul Modley, Ernst & Young Executive Search & Selection, Rolls House, 7 Rolls Buildings, Fetter Lane, London EC4A 1NH, quoting reference PM284 Tel 0171 931 1005. Fax 0171 931 1022 or e-mail: pmodley@cc.ernsty.co.uk

ERNST & YOUNG

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YOUNG INTERNATIONAL TROUBLE-SHOOTER

Highly Motivated Accountant Supporting Global Finance Team

Global Role **c.£45,000 + Bonuses**

This dynamic and entrepreneurial Global Media Group, operates several Divisions worldwide. It has expanded significantly in recent years both by organic growth and acquisitions in the US, Europe, Far East and South America.
In a further strengthening of Group Finance, the International Trouble-Shooting team requires an additional ambitious young Accountant who will have the responsibility of responding to regional and subsidiary company requirements reporting directly to the Chief Financial Controller.

The Role

- Report to Chief Financial Controller based in Amsterdam. Mobile position supporting global Finance team. Extensive travel required.
- Provide support at local level in a number of key areas including:-
  - Year-end preparation work, heavy involvement in budgeting process at regional or subsidiary level. Review balance sheet. Cash management.
  - Significant involvement in the improvement of processes and procedures with special emphasis on I.T. issues.
  - Provide "best practice" advice to local management. Responsible for training of local staff.
  - Acting as interim finance manager where required.
  - Ad hoc investigations and project work.

The Candidate

- Graduate Qualified Accountant/MBA. Proven track record within pressured International Group driving through change and tightening controls.
- Outstanding communication and presentation skills. Ability to command respect across Group.
- Self-motivated, enthusiastic approach, pro-active style with commercial flair. Thrive in challenging and demanding environment.
- Strong I.T. skills preferably with Sun experience, technically excellent. English speaking, second language an advantage.
- Must enjoy travel and dealing with different cultures.

Please apply in writing, enclosing full CV, quoting reference number LBA/320.

LAWRENCE BARNETT
INTERNATIONAL FINANCIAL SELECTION

Metropolitan House, City Park Business Village,
20 Brindley Road, Manchester, M16 9HQ England.
Tel: +44 161 877 4439. Fax: +44 161 877 6708.
E-mail: lawrencebarnett@compuserve.com

REGIONAL CHIEF FINANCIAL OFFICER

Global Media Group

W. European City **$100,000, Bonus, Excellent Benefits**

The dynamic and entrepreneurial Organisation is one of the world's largest Media Groups. It has expanded significantly in recent years both by organic growth and acquisitions in the US, Europe, Far East and South America. With its constant drive for continuous improvement, a high calibre Finance Professional is now required to manage a cross border Finance and Customer Service operation.

The Role

- Report to Regional Director.
- Select, build and manage quality Finance and Customer Service teams.
- Provide a pro-active, comprehensive financial and management accounting support service to European Business Heads.
- Manage through a Customer Services Manager the back office call centre activities.
- Commercial approach to prioritise customer demands
- Ensure tight financial controls are in place. Awareness of cross border VAT/tax implications.

The Candidate

- Graduate Qualified Accountant. Proven track record in senior line financial role within pressurised International Group.
- Outstanding man-management, communication and presentation skills. Ability to command respect across business/cultures. Second language desirable.
- Self-motivated, assertive yet diplomatic with mature approach, pro-active style with commercial flair. Thrive in challenging and demanding environment. Decision maker
- Strong I.T. skills, technically excellent.

Please apply in writing, enclosing full CV, quoting reference number LBA/321.

LAWRENCE BARNETT
INTERNATIONAL FINANCIAL SELECTION

Metropolitan House, City Park Business Village,
20 Brindley Road, Manchester, M16 9HQ England.
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Financial Controller

(FD Designate)

Metroline

Harrow **c £45,000 + Benefits**

As a recently floated Plc, Metroline has more than doubled in size by means of a targeted acquisition policy in the year since it came to the market. As a result of this rapid growth, Metroline is now seeking a commercially minded individual to take charge of the financial affairs of the group's two principal London Bus operating subsidiaries with a combined turnover of around £80 million.

Candidates should be able to show a consistent record of achievement and should be ready to take on the subsidiary board role which is expected to be on offer within 6-12 months.

Key responsibilities will include:

- Controlling the financial affairs of the two principal operating subsidiaries.
- Managing an established team of 14 staff.
- Developing the business through an understanding of financial issues.
- Liaison with Group, Directors and other non-finance members of staff.

You will be a highly motivated qualified accountant with a pro-active and hands-on style. You will also be able to apply your proven analytical and management skills to influence the bottom line.

Interested candidates should send their CV, enclosing details of current salary package, to Josh Edmunds at Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LN. Fax: 0171 831 6293. Please quote reference 453828.
e-mail: joshedmunds@michaelpage.com
www.michaelpage.com

Michael Page
FINANCE

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Financial Controller

Central London **£70,000 + Benefits**

Launched in 1997, Channel 5 is a dynamic new commercial terrestrial channel, supported by a consortium that includes United News and Media Plc and Pearson Plc. It has quickly gained a 5% market share through innovative programming schedules, ground-breaking film deals and broadcast of major sporting events.

Reporting to the Finance Director, the Financial Controller will be required to contribute significantly to the development of the business.

The role is broad ranging, spanning not only the traditional areas of control and reporting, but will also have critical involvement in key projects, change management and strategic planning.

Specific responsibilities will include:

- Systems and processes – development of financial systems and robust procedures across the business.
- Critically appraise current reporting methodologies and efficiently manage forecasting/budgeting and statutory reporting processes.
- Management and development of the finance team.
- Perform a key role in major projects both as a team leader and participate in cross functional teams.

The successful candidate will be an experienced Financial Controller with a broad based commercial background and able to demonstrate a track record of delivery. A proven team leader, you will thrive working in a fast moving, non-bureaucratic environment with the ability to multi-task and move easily between projects. In addition, you will be able to demonstrate credibility with Senior Management and excellent communication and presentation skills.

Interested candidates should forward an up-to-date CV to Malcolm Kelly at Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LN, fax 0171 831 2612 or www.michaelpage.com
e-mail: malcolmkelly@michaelpage.com

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FINANCE

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Argos

Business Systems Accountant

Exert your influence through Financial Systems

Argos is a powerful force in modern retailing, with over 431 stores and a turnover in excess of £1.8 billion. Since acquisition by Great Universal Stores (GUS) the organisation has embarked on a period of exciting new developments. Argos is reliant on the imaginative and effective use of technology, employing a variety of systems to support this dynamic business, with an impressive commitment to excellence. Argos embraces a culture that encourages continuous improvement, accountability and team work.

Milton Keynes **to £40,000 + FX Car + Excellent Bens**

Working closely with the Finance Systems Manager and business users, you will provide analysis and systems development reviews on both existing and future leading edge systems throughout the Argos businesses.

You should be a qualified accountant with at least two years post qualification experience with a solid understanding of the principles of ledger based systems and financial applications software.

You will need to demonstrate:

- Excellent communication skills, vital in explaining complex systems issues to both users and technical specialists alike.
- Well developed commercial skills combined with the objectivity necessary to appreciate the organisation wide implications of integrated finance systems.
- An understanding of the principles of project management.
- Strong Microsoft Office PC skills.
- Exposure to any of the following: proprietary financial ledger systems (eg Lawson, JD Edwards), Hyperion or multidimensional modelling tools.

Please write, enclosing a CV, to our retained consultant Jo Hassall at Michael Page Finance, Grant Thornton House, 214 Silbury Boulevard, Milton Keynes, Bucks MK9 1LT. Telephone 01908 692611. Fax 01908 692488.
e-mail: johassall@michaelpage.com www.michaelpage.com

Michael Page
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Business Analyst

Central London

to £40K + benefits

PSION

Psion PLC is a highly successful and rapidly growing UK quoted group. With a turnover of £142 million in 1997, the company develops, manufactures, distributes and markets palmtop computers, industrial terminals and mobile network products. Currently the largest shareholder in Symbian, a joint venture with Ericsson, Nokia and Motorola to promote an industry standard operating system for the next generation of mobile communications and computing products, future prospects for the business are outstanding.

The Role

Reporting to the Group Financial Controller and liaising with all finance and non-finance departments, specific responsibilities will include:

- Forecasting, modelling and associated analysis.
- Treasury management including foreign currency exposure.
- Business planning and benchmarking.
- Project work.

The role provides an excellent entry point for rapid progression through the Group.

The Person

- A recently qualified accountant.
- Excellent technical and analytical skills.
- Strong intellect and motivation.
- Excellent interpersonal skills and an assertive and pro-active team player.

Please send your curriculum vitae with covering letter to Simon Keating, at Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LN, or fax him on 0171 831 2354. Please quote reference 453465. Alternatively, e-mail him at simonkeating@michaelpage.com www.michaelpage.com

Financial Controller

Flotation Opportunity

Cambs **c £50,000 + Car + Bonus**

Our client is an entrepreneurial global software services company. Acquisitive, with a blue-chip client base and highly regarded products, our client has experienced and continues to experience growth in excess of 50% per annum in revenue and profit.

Reporting directly to the CFO and General Manager, this newly created role will oversee a most exciting stage in the company's strategic development as flotation is anticipated within 2-3 years.

Specific responsibilities will include:

- Pro-active management of the finance team, improving methodology, processes and controls through a period of considerable expansion.
- Direct involvement with all commercial activities including contract review, customer and supplier negotiation and partnership agreements.
- Targeting acquisitions and due diligence.
- Ad-hoc projects including devising innovative approaches to monitoring business performance.

Prospective candidates will be ambitious qualified accountants, c 2-3 years PQE, with strong technical and people management skills ideally gained in IT/Telecoms or a related service orientated sector.

Interested candidates should enclose an up-to-date CV including current remuneration details, quoting reference 453753 to Joe McShane at Michael Page Finance, Centurion House, 136-142 London Road, St Albans, Herts AL1 1SA, or e-mail: joemcshane@michaelpage.com
www.michaelpage.com

Michael Page
FINANCE

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International Financial Controller

London **c £45,000 + Car + Benefits**

Our client is a US listed software company with a market capitalisation in excess of $1.5 billion. A combination of market leading products and exceptional sales performance has lead to growth in excess of 30% per annum and has created a requirement for a commercially minded Financial Controller.

Reporting to the UK Finance Director, the principal responsibilities will include:

- All aspects of group reporting including statutory accounts and monthly management information.
- Development and implementation of systems for UK and international operations.
- Development of budgeting, forecasting models and treasury operations.
- High level business support to general management including project appraisal, market analysis and set-up of new operations.
- Management and development of finance department.

The ideal candidate will be a graduate ACA qualified accountant with 2-5 years post qualified experience, preferably gained in the hi-tech/computer software sector. As well as proven experience of implementing financial processes, you will be able to demonstrate excellent high level communication skills, good business acumen and the ability to think laterally in the provision of commercial solutions to business problems. Experience of working in a demanding international business would also be an advantage.

Interested candidates should apply in writing to Malcolm Kelly at Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LN, telephone 0171 269 2295, fax 0171 831 2612, e-mail: malcolmkelly@michaelpage.com
www.michaelpage.com

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FINANCE

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هكذا من الاصل

£80,000 package plus benefits | *Retail* | *North West*

Head of Financial Planning & Analysis

With a significant High Street store portfolio, rapidly expanding home shopping operation and turnover in excess of £600 million, this is one of the fastest growing retail brands in the UK. As a result of an internal promotion, a commercially astute Finance professional is required, who will work as part of the senior management team to achieve ambitious growth plans within this expanding sector.

THE ROLE

- Influential role with primary focus on supporting and adding value to strategic planning and decision making through the provision of top quality management and financial information.
- Contribute to the full range of strategic and operational issues in order to enhance the brand and customer propositions. Ensure robust planning and budget processes.
- Work effectively with colleagues across functions to optimise efficiency and maximise profitability. Continually improve controls to take account of rapid growth and innovative service diversification.

THE QUALIFICATIONS

- Ambitious graduate calibre qualified Accountant with experience of managing a finance team in an entrepreneurial, rapidly expanding organisation. Ideally exposure to retail or related multi-site service business.
- Strong financial planning experience. Background negotiating service level agreements with internal and external suppliers. Comfortable operating in a matrix organisation.
- Analytical with strong commercial orientation. Lateral thinker focused on delivering innovative solutions. Adept relationship builder and team player with the energy, drive and commitment to help grow this dynamic business.

Leeds 0113 230 7774
London 0171 298 3333
Manchester 0161 499 6700

Selector Europe Spencer Stuart

Please reply with full details to: Selector Europe, Ref. JAN/28096-2/98, Adlington Court, Greencourts, 333 Styal Road, Manchester M22 5LG

To £120,000 plus bonus & benefits/options | *Quoted Global Engineering Group* | *Northern Home Counties*

Group Finance Director

Internal promotion has generated the opportunity for a talented finance professional to join the board of this ungeared £200 million international group. Stimulating remit to help deliver a challenging strategy, transforming the business for focused growth.

THE ROLE

- Reporting to the CEO, a key member of the executive board with full responsibility for financial management and control, treasury, tax, IT and business appraisal.
- Championing and delivering initiatives to ensure continuous improvement in systems and processes is established and maintained.
- Identifying, evaluating and delivering strategic alliances and acquisitions worldwide to enhance critical mass and leadership in specific overseas markets.

THE QUALIFICATIONS

- Commercial and ambitious graduate Accountant with at least five years' financial management experience in a group/divisional role, ideally in engineering or manufacturing.
- Alert, crisp and responsive analyst with an eye for detail and the interpersonal skills to critique and challenge strategic thinking at board level.
- First-class leadership skills coupled with high levels of energy. Demanding yet motivating manager capable of extracting consistently high levels of performance from subordinates.

Leeds 0113 230 7774
London 0171 298 3333
Manchester 0161 499 6700

Selector Europe Spencer Stuart

Please reply with full details to. Selector Europe, Ref. TRB/28047-2/98, 16 Connaught Place, London W2 2ED

$120,000 plus bonus & benefits | *US Multinational* | *Paris*

VP Finance - Europe

Dynamic new team driving 25%+ per annum growth in a global $400 million division of a major US multinational serving the automotive and aerospace sectors. Excellent opportunity for a highly commercial finance professional to play a key role in exploiting the growth potential across Europe. Definite international career opportunities.

THE ROLE

- Responsible to the CEO Europe for the establishment of first-class business planning, budgeting, accounting, reporting and control procedures to enhance decision making. Close liaison with US counterparts.
- Member of European executive management team developing and implementing overall strategic and operating plans. Lead role in acquisitions with target of doubling revenue to $400 million in 3 to 5 years.
- Active role in investor relations providing analysts with a perspective on the European operations.

THE QUALIFICATIONS

- Commercially astute, qualified accountant or MBA with previous responsibility at senior level for delivering results in US GAAP for the pan-European operations of a US multinational.
- Leadership and initiative to contribute to strategic debate as well as active involvement in integration and performance enhancement.
- Team player and leader with proven success in establishing robust and effective financial controls and disciplines on a pan-European basis. European languages an advantage.

Tel: +33 1 53 57 81 15
Fax: +33 1 53 57 81 00

Selector Europe Spencer Stuart

Please reply with full details to: Spencer Stuart, Ref. 27718-003FA, 83 Avenue Marceau, 75116 Paris, France

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BURMAH CASTROL

c. £75,000 package plus benefits | *Swindon*

Treasury Manager

A key appointment reporting to the Group Treasurer as part of the central Corporate Finance team of this substantial international Group. A highly visible role working closely with group and line management to ensure effective and appropriate funding and balance sheet management strategies are devised and implemented as further international growth and development takes place.

THE ROLE

- Playing a major role in evaluating and driving initiatives to optimise the capital structure of the Group and supporting the Corporate Finance Director and Group Treasurer in capital market negotiations.
- Working with other functional experts and the operating businesses to achieve strategic financial goals ensuring that the businesses are appropriately funded and that relationships with the banks are properly managed.
- Undertaking 'adhoc' projects to improve effectiveness of cash and liquidity management throughout the Group.

THE QUALIFICATIONS

- Bright, ambitious ACT qualified graduate. Probably a Chartered Accountant, with solid treasury experience gained within a complex multinational group.
- Natural team player with high levels of energy. Able to work on multiple assignments and undertake international travel where necessary.
- First-class communicator and presenter, credible at board level and able to work effectively with third party advisors.

Leeds 0113 230 7774
London 0171 298 3333
Manchester 0161 499 6700

Selector Europe Spencer Stuart

Please reply with full details to: Selector Europe, Ref. TRB/26734-4/98, 16 Connaught Place, London W2 2ED

FINANCE DIRECTOR

Outstanding opportunity within a prestigious retail plc

Thames Valley | **c £80,000 + Car + Benefits**

Our client is a highly successful listed UK Plc enjoying highly profitable trading activities, with turnover currently running at over £100 million. Operating in a highly competitive marketplace, the company has enjoyed substantial growth through both organic and acquisitive means. The appointment has arisen as a result of this business growth and the role is seen as a key member of a successful management team.

THE POSITION

- Report to the Chief Executive and provide strong commercial input on a range of strategic and operational issues, playing a significant role in driving profitable growth.
- Assume full responsibility for financial management and control alongside company secretarial duties and related administration.
- Develop systems and procedures to facilitate effective financial control and generate management information that adds value to decision making throughout the business.

QUALIFICATIONS

- Qualified Accountant.
- Experience gained within a dynamic multi-site customer focused business, preferably Plc with the ability to represent the company to the City and external parties.
- Proven commercial acumen founded on sound technical skills and ambitious for personal and professional development.
- A teamplayer, results orientated, motivated with excellent interpersonal skills and the ability to contribute to a lively and informal environment.

Interested candidates should write, enclosing full career and current salary details to Julie Gilgrist and Stephen Banks at the Consumer Division, Questor International, 3 Burlington Gardens, London W1X 1LE. Please quote reference 2530. Tel 0171 292 8300, Fax 0171 287 5457, e-mail: gail@questorint.com

QI
QUESTOR INTERNATIONAL

Highly successful PLC

Financial Controller

N.W. London – c. £50,000 + Bonus + Car

- *Our client is a publicly quoted leading regional newspaper company with nearly sixty titles distributed around London and the Home Counties.*
- *Reporting to the Finance Director, the Financial Controller will be responsible for the management of the Finance Function of ten staff and initially focus on developing the financial systems to ensure that they are properly integrated and that accurate, meaningful information can be produced on a timely basis.*
- *Candidates should be ambitious, commercially focused qualified accountants with the ability to work effectively in an informal but fast moving and rapidly changing environment, giving individuals the opportunity to take on increasing responsibilities. Applicants should have worked within a high transactional volume business; have the ability to communicate well throughout business, with particular emphasis on the Main Board and operational managers; and possess good IT (including spread-sheet) skills – familiarity with Sun Accounting would be ideal, but not essential.*
- *For candidates who can demonstrate the right level of ability, the potential expansion of the company should be able to offer good career development opportunities.*

Please send your curriculum vitae with current remuneration details and an explanation of how you meet these requirements to Carrie Andrews, Ernst & Young, Executive Search & Selection, Rolls House, 7 Rolls Buildings, Fetter Lane, London EC4A 1NH, quoting reference CA288.

ERNST & YOUNG

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GROUP FINANCIAL CONTROLLER

COMMERCIAL ROLE WITH EQUITY STAKE IN VENTURE CAPITAL BACKED, FAST GROWTH RETAIL BUSINESS

SOUTH WALES | **c. £60,000 + BONUS + BENEFITS + EQUITY**

- A rapidly growing, highly profitable retail business generating sales of c.£200, operating 270 stores nationwide. Established brand and strong market presence. Following a venture capital backed MBO, the business has an ambitious new store opening programme whilst enjoying exceptional rapid pay-back on new stores and development costs.
- The company requires an energetic and commercial Group Financial Controller who will act as right hand person to the Group Finance Director who has broader responsibilities outside the finance function and is a member of the team driving the business. The individual will play a key role in supporting the Finance Director and the board, preparing the company for a possible flotation in the near future.
- The individual will be responsible for financial reporting, forecasting, budgeting, business analyst and ad hoc strategic projects which will include acquisitions. An early priority will be to modernise and develop comprehensive financial control disciplines and tightly managed planning and analysis processes.
- Graduate, qualified accountant. Established record of achievement ideally in a blue-chip consumer branded multi-site service or retail organisation where finance actively contributes to broader commercial decisions. Experience in financial planning and analysis would be preferable.
- First class communication skills, and the ability to gain support and have credibility with both financial and non-financial senior management. Innovative and creative, capable of operating in a dynamic, fast growth business.
- Good intellect, strong analytical and strategic planning skills, combined with a hands-on approach. Capable of working in an informal, non-hierarchical organisation and empathising with an entrepreneurial culture. Able to contribute to the development of a strong commercial finance function. The position will have an opportunity to make a major commercial and strategic input to the group. The position offers scope for development within a growing company.

Please apply in writing quoting reference 1707 with full career and salary details to:
Katie Orr
Whitehead Selection
11 Hill Street, London W1X 8BB
Tel: 0171 290 2000. Fax: 0171 290 2050
www.whiteheadselection.co.uk

Whitehead SELECTION

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EUROPEAN BUSINESS TREASURY

Switzerland | **Excellent Package**

Through its powerful premium brand portfolio and superior marketing, manufacturing and distribution expertise, our client is firmly established as the world's most successful consumer packaged goods company. Ranked in the Top 10 of all companies world-wide in terms both of profitability and market capitalisation, strong financial management is at the heart of business success.

Due to continuing impressive growth and investment in the rapidly evolving markets of Eastern Europe, the company is seeking to recruit a talented finance professional to join the highly visible Treasury team at its Swiss head office. Working closely with the Head of Treasury and with Eastern European businesses to optimise the use of funds and to minimise business risk, this is a wide-ranging role. Responsibilities involve providing expert support in areas including cash management, balance sheet forecasting, changes in investment and the monitoring of risk factors. With responsibility for the preparation of the annual financial policies and Treasury reporting processes, there will also be involvement in the training of local staff to ensure high level performance in the company's Treasury operations throughout Eastern Europe.

The position requires a combination of strong finance and financial modelling skills, Treasury experience and real commercial flair. Creative thinking and problem-solving ability are essential, with the confidence to make sound judgements on issues of business risk.

Candidates must be fluent in English and have the necessary interpersonal skills to build and manage effective working relationships throughout the region and beyond. Exposure to Eastern European markets would be an added advantage.

Our client's working environment and the way in which it rewards its employees are as impressive as its business performance. The salary and benefits package is generous and the breadth and exposure of the role will provide future career opportunities within the company.

Interested applicants should post or fax their CV quoting ref: 304 and giving current salary details to Alderwick Consulting Limited at the address below. For more information and an initial discussion in confidence, please call (+44) 171 242 9191 (weekdays) or (+44) 1480 477437 (evenings and weekends).

ALDERWICK CONSULTING

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appears in the UK edition every Wednesday & Thursday and in the International edition every Friday.
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ICL is seeking Service Delivery Directors who will have ultimate authority for the world class provision of all service to ICL's customers, ensuring the highest level of customer satisfaction is maintained. Working closely with the Client Director, you will have significant P&L responsibility and act as a principal point-of-contact for your customer, realising the NEW ICL culture for the customer by bridging any gaps and providing a single interface for all contracted activities performed by the ICL group.

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Unafraid of taking responsibility, you will have strong organisational skills, a strategic perspective and the will to see this through. Change management will be a strength. You have strong interpersonal skills and written communication skills and will be experienced working at Board level and influencing across the company. You will have proven excellent leadership skills in effecting major change and service delivery to your customers. With a high achievement orientation, success in this role will lead to a range of opportunities within the ICL Group.

Please apply in writing quoting reference 2911FT with full career and salary details to: Helen Roberts, Whitehead Selection, 11 Hill Street, London W1X 8BB
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Interested candidates should contact Annalie Davies at Michael Page Technology, Page House, 39-41 Parker Street, London WC2B 5LN or telephone her on 0171 269 2350, fax 0171 831 7182 or e-mail: annaliedavies@michaelpage.com www.michaelpage.com

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Front Office Developer

McGregor Boyall Associates are one of the UK's leading financial markets IT selection consultancies. We work in partnership with major UK and international investment banks, securities firms and fund managers in recruiting the very best information technologists with business knowledge.

In today's market, your fixed income experience and your technology skills combine to make you a key recruit to many of our clients. Your next career move needs to capitalise on this experience and ensure that you attain realistic and exciting career progression. You may find this in the position outlined in this advert. If not, you now have access to our dedicated fixed income IT web-page listed below.

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- to enhance and develop a web-based index data enquiry tool;
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- have knowledge of fixed income products;
- have a minimum of two years' experience of C or C++ programming with a good grounding in Sybase (or another RDBMS);
- be proficient at Unix script writing;
- ideally demonstrate a knowledge of NT, Excel and VB.

For further information, please contact Helen Deakin or Fiona Wright on 0171 806 1420. Alternatively, send your CV, quoting reference FIFT115 to McGregor Boyall Associates, 114 Middlesex Street, London E1 7JH. Fax: 0171 247 7475. Email: hdeakin@mcgregor-boyall.com

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McGregor Boyall Associates are one of the UK's leading financial markets IT selection consultancies. We work in partnership with major UK and international investment banks, securities firms and fund managers in recruiting the very best information technologists with business knowledge.

In today's market, your equities experience and your technology skills combine to make you a key recruit to many of our clients. Your next career move needs to capitalise on this experience and ensure that you attain realistic and exciting career progression. You may find this in the position outlined in this advert. If not, you now have access to our dedicated equities IT web-page listed below.

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Our client is one of the world's largest and most successful investment banks. They are currently seeking a business analyst to join the Equity Front Office and Risk development team.

The role is...

- to work closely with development teams and systems users;
- to act as the senior member of a cross-system analysis team;
- to work in a technical environment whose major tools are Sybase, C++, VB5, Unix, NT and Powerbuilder.

You will...

- be educated to degree level (ideally in a numerate discipline);
- possess solid business analysis skills and equities experience;
- have exposure to systems implementation and a working knowledge of relational databases (any exposure to CASE tools, Unix and Sybase is advantageous).

For further information, please contact Helen Deakin or Fiona Wright on 0171 806 1420. Alternatively, send your CV, quoting reference EQFT124 to McGregor Boyall Associates, 114 Middlesex Street, London E1 7JH. Fax: 0171 247 7475. Email: hdeakin@mcgregor-boyall.com

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In the strictest confidence, please send a full CV to Craig Millar at Millar Associates, 6 Sloane Street, Knightsbridge, London SW1X 9LE. Please quote reference FT2309 Tel: 0171 823 2222. Fax: 0171 823 2208. E-mail: millarassociates@sw1.telme.com

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